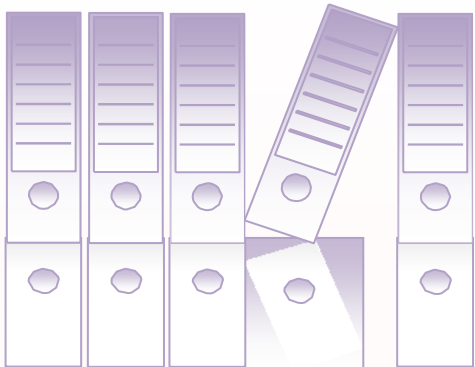


# **uMLALAZI MUNICIPALITY 2015/2016**

## **UNAUDITED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016**



**Finance Department**

# uMLALAZI MUNICIPALITY

## INDEX

	<b>Page</b>
1 Contact information	1
2 General information	2-3
3 Certification by the Accounting Officer	4
4 Statement of Financial Position	5
5 Statement of Financial Performance	6
6 Statement of Changes in Net Assets	7
7 Cash Flow Statement	8
8 Statements of Comparison of Budget and Actual amounts	
<i>Statement of Financial Performance</i>	9
10 Notes to the Annual Financial Statements:	
<i>Note 1: Accounting Policies</i>	10-28
<i>Note 2 - 57: Other Notes to the Annual Financial Statements</i>	29-63
11 <b>APPENDICES</b>	
<i>A Schedule of external loans</i>	64
<i>B Analysis of property, plant and equipment</i>	65
<i>C Segmental statement of financial performance</i>	66
<i>D (1) Actual compared with budgeted revenue and expenditure</i>	67
<i>D (2) Actual compared with budgeted acquisition of property, plant and equipment</i>	68
<i>E Disclosures of grants and subsidies in terms of section 123 of the Local Government : Municipal Finance Management Act, 2003 (Act No. 56 of 2003)</i>	69

# Annual Financial Statements

for

## uMlalazi Municipality

for the year ended 30 June 2016

Province: **KwaZulu-Natal**

AFS rounding: **To the nearest Rand**

Contact Information:	
Name of Municipal Manager:	Simon Mashabane
Name of Chief Financial Officer:	Zakhele Mhlongo
Contact telephone number:	035 - 473 3338
Contact e-mail address:	<a href="mailto:cfo@umlalazi.org.za">cfo@umlalazi.org.za</a>
Name of contact at Provincial Treasury:	Sifiso Vezi
Contact telephone number:	033 - 897 4532
Contact e-mail address:	<a href="mailto:sifiso.vezi@kzntreasury.gov.za">sifiso.vezi@kzntreasury.gov.za</a>
Name of relevant Auditor:	Jabulani Nkosi
Contact telephone number:	033 - 264 7400
Contact e-mail address:	<a href="mailto:jabulanink@agsa.co.za">jabulanink@agsa.co.za</a>
Name of contact at National Treasury:	Linda Kruger
Contact telephone number:	012 - 315 5295
Contact e-mail address:	<a href="mailto:linda.kruger@treasury.gov.za">linda.kruger@treasury.gov.za</a>

## uMLALAZI MUNICIPALITY

### ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

#### General information

##### Members of the Council

Councillor	T B Zulu	Mayor and chairperson of the Executive Committee
Councillor	M M M Ntuli	Deputy Mayor and member of the Executive Committee
Councillor	M B Biyela	Chief Whip
Councillor	E N Mtshali	Speaker
Councillor	C M Gamede	Member of the Executive Committee
Alderman	S B Larkan	Member of the Executive Committee
Councillor	C T Ndwane	Member of the Executive Committee
Councillor	B R L Ngema	Member of the Executive Committee
Councillor	S G Ngema	Member of the Executive Committee
Councillor	J K Powell	Member of the Executive Committee
Councillor	I Woolatt	Member of the Executive Committee
Councillor	Q T Xulu	Member of the Executive Committee
Councillor	N L Biyela	Member
Councillor	Z H Biyela	Member
Councillor	B S Cebekhulu	Member
Councillor	M M Cebekhulu	Member
Councillor	C T Dlamini	Member
Councillor	M E Dlamini	Member
Councillor	P G Dlolane	Member
Councillor	M Dludla	Member
Councillor	T A Hlatshwayo	Member
Councillor	E Z Jaffe	Member
Councillor	M M Khanyile	Member
Councillor	K Khumalo	Member
Councillor	B C Magwaza	Member
Councillor	K B Magwaza	Member
Councillor	S G Mbambo	Member
Councillor	S K Mbatha	Member
Councillor	M F Mdluli	Member
Councillor	G S Mkhize	Member
Councillor	N M Mnqayi	Member
Councillor	F M Mtengu	Member
Councillor	N S Mzimela	Member
Councillor	W P Mzimela	Member
Councillor	S Naicker	Member
Councillor	I F Ndwandwe	Member
Councillor	N L Ngidi	Member
Councillor	D T Ngonyama	Member
Councillor	M Z Nkwanyana	Member
Councillor	T E Ntsele	Member
Councillor	M G Ntuli	Member
Councillor	M H Qwabe	Member
Councillor	S Schoeman	Member
Councillor	T G Shandu	Member
Councillor	B P Simelane	Member
Councillor	S S Sithole	Member
Councillor	E A Talmage	Member
Councillor	B L Thusi	Member
Councillor	V M Xulu	Member
Councillor	M G Zondi	Member
Councillor	N S Zulu	Member
Councillor	E M Zwane	Member

**uMLALAZI MUNICIPALITY**

**ANNUAL FINANCIAL STATEMENTS FOR THE YEAR 30 JUNE 2016**

**General information (continued)**

**Municipal Manager**

Simon Mashabane

**Chief Financial Officer**

Zakhele Mhlongo

**Grading of Local Authority**

3

**Auditors**

Auditor - General

**Bankers**

First National Bank, Eshowe (Current account - Primary Bank Account)

**Registered Office:** Municipal Buildings, Eshowe

**Physical address:** Hutchinson Street  
Eshowe

**Postal address:** P O Box 37  
Eshowe  
3815

**Telephone number:** 035 - 473 3474

**Fax number:** 034 - 474 4733

**E - mail address:** [mm@umlalazi.org.za](mailto:mm@umlalazi.org.za)

**uMLALAZI MUNICIPALITY**

**ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016**

**Certification by the Accounting Officer**

I am responsible for the preparation of these annual financial statements, which are set out on pages 1 to 69 in terms of section 126 (1) of the Local Government : Municipal Finance Management Act, 2003 (Act No. 56 of 2003) and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed in note 33 of these annual financial statements are within the upper limits of the framework envisaged in section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act, 1998 (Act No. 20 of 1998) and the Minister of Co-operative Governance and Traditional Affairs' determination in accordance with this Act.

---

Accounting Officer  
T S Mashabane

DATE:

31/08/2016

## uMLALAZI MUNICIPALITY

## STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2016

	Notes	2016	(Restated) 2015
		R	R
<b>ASSETS</b>			
<b>Current assets</b>			
Inventory	2	2 831 172	2 546 349
Receivables from exchange transactions	3	7 934 606	8 122 023
Receivables from non-exchange transactions	4	14 494 725	9 395 271
Current portion of loans receivable	5	19 995	21 288
VAT receivable	3	14 479 582	7 026 456
Cash and cash equivalents	6	112 438 562	79 034 476
		<u>152 198 642</u>	<u>106 145 863</u>
<b>Non-current assets</b>			
Property, plant and equipment	7	779 230 420	660 474 937
Intangible assets	10	619 252	480 615
Investment property carried at fair value	11	16 257 000	16 257 000
Heritage assets	12	10 311 344	1 411
Investments	13	1 000	1 000
Deposits with creditors	5	739 165	690 164
Loans receivable	5	633 817	728 202
		<u>807 792 000</u>	<u>678 633 330</u>
<b>Total assets</b>		<u><b>959 990 641</b></u>	<u><b>784 779 193</b></u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Consumer deposits	14	1 763 664	1 385 775
Payables from exchange transactions	15	47 899 242	22 751 156
VAT payable	15	776 936	1 584 956
Unspent conditional grants and receipts	16	20 098 974	14 950 892
Loans payable	17	342 816	342 816
Employee benefits	18	4 551 575	4 078 493
Provisions	19	5 063 439	4 888 244
		<u>80 496 647</u>	<u>49 982 332</u>
<b>Non-current liabilities</b>			
Loans payable	17	4 113 788	4 456 603
Employee benefit obligations	20	15 548 000	16 290 000
		<u>19 661 788</u>	<u>20 746 603</u>
<b>Total liabilities</b>		<u><b>100 158 434</b></u>	<u><b>70 728 935</b></u>
<b>Net assets</b>		<u><b>859 832 209</b></u>	<u><b>714 050 260</b></u>
<b>NET ASSETS</b>			
Housing operating account	21	9 210 114	11 281 110
Accumulated surplus	22	850 622 095	702 769 150
<b>Total net assets</b>		<u><b>859 832 209</b></u>	<u><b>714 050 260</b></u>

**uMLALAZI MUNICIPALITY**  
**STATEMENT OF FINANCIAL PERFORMANCE**  
**FOR THE YEAR ENDED 30 JUNE 2016**

Actual

	Notes	2016	2015
		R	R
<b>REVENUE</b>			
<b>Revenue from Non-exchange Transactions</b>		<b>376 746 435</b>	<b>237 383 718</b>
<i><b>Taxation revenue</b></i>		<b>48 690 257</b>	<b>33 815 897</b>
Property rates	23	46 375 576	32 939 235
Property rates - penalties imposed		2 314 681	876 662
<i><b>Transfer revenue</b></i>		<b>295 120 918</b>	<b>177 067 197</b>
Government grants and subsidies - operational	24	135 560 171	120 423 311
Transfers recognised - capital		65 674 184	49 117 816
Public contributions, donated and contributed PPE	25	93 886 563	7 526 070
<i><b>Other</b></i>		<b>32 935 261</b>	<b>26 500 624</b>
Fines		32 197 564	26 500 624
Actuarial gains		737 696	
<b>Revenue from Exchange Transactions</b>		<b>82 602 677</b>	<b>74 702 523</b>
Service charges	26	67 626 976	63 115 000
Rental of facilities and equipment	27	1 155 907	1 199 282
Interest earned- external investments	28	6 466 900	4 145 570
Interest earned- outstanding debtors		457 035	351 912
Licences and permits	29	3 419 316	3 309 720
Other income	30	2 565 093	2 551 039
Gain/ (loss) on sale of assets	31	911 450	30 000
<b>Total revenue</b>		<b>459 349 112</b>	<b>312 086 241</b>
<b>EXPENDITURE</b>			
Employee related costs	13 32	78 909 855	63 395 738
Remuneration of councillors	14 33	17 442 539	15 921 150
Allowance for doubtful debts	15 4	38 918 057	27 267 077
Depreciation and impairment loss	17 34	39 990 330	34 200 045
Repairs and maintenance	18 35	21 332 274	17 462 762
Finance costs	19 36	576 525	617 534
Bulk purchases	20 37	43 727 155	39 424 565
Contracted services	21 38	28 210 831	24 603 209
Employee benefits	22 39	3 694 924	4 609 160
General expenses	23 40	65 743 632	54 553 230
Contributions to staff leave	25 41	2 563 645	1 460 420
<b>Total expenditure</b>		<b>341 109 767</b>	<b>283 514 888</b>
Profit/ (loss) on fair value adjustment	42	10 309 933	5 102 198
<b>SURPLUS/ (DEFICIT) FOR THE YEAR</b>		<b>128 549 279</b>	<b>33 673 551</b>



**uMLALAZI MUNICIPALITY**  
**STATEMENT OF CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED 30 JUNE 2016**

	(Note 21)	(Note 22) (Restated)	Total
	Housing operating account	Accumulated surplus	
	R	R	R
<b>Balance at 30 June 2014</b>	10 804 576	658 786 881	669 591 457
Surplus (deficit) for the year	81 458	33 592 092	33 673 550
Adjustments prior year		-10 194 566	-10 194 566
Transfer to Capital Replacement Reserve		9 934 483	9 934 483
Transfer from Housing Operating Account	-60 073		-60 073
Public contributions	71 454		71 454
Interest received	383 694		383 694
Prior year error correction on assets - fair value adjustments		120 565	120 565
Prior year error correction on assets		-4 025 273	-4 025 273
Prior year error correction on depreciation		14 554 967	14 554 967
<b>Balance at 30 June 2015</b>	<b>11 281 110</b>	<b>702 769 150</b>	<b>714 050 260</b>
	(Note 21)	(Note 22)	
<b>Balance at 30 June 2015</b>	11 281 110	702 769 150	714 050 260
Surplus (deficit) for the year	-2 368 646	130 917 925	128 549 279
Adjustments prior year		-3 698 478	-3 698 478
Transfer to Capital Replacement Reserve		20 633 498	20 633 498
Transfer from Housing Operating Account	-157 624		-157 624
Public contributions	62 523		62 523
Interest received	392 752		392 752
<b>Balance at 30 June 2016</b>	<b>9 210 114</b>	<b>850 622 095</b>	<b>859 832 209</b>

**uMLALAZI MUNICIPALITY**

**CASH FLOW STATEMENT**

**FOR THE YEAR ENDED 30 JUNE 2016**

		2016	2015
	Notes	R	R
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Receipts:</b>			
Receipts from consumers and other		95 591 785	128 849 788
Government - Operating		135 560 171	120 423 311
Government - Capital		65 674 184	49 117 816
Interest income		6 466 900	4 145 570
<b>Payments:</b>			
Suppliers		-101 634 692	-152 673 870
Employee costs		-96 352 394	-79 316 888
Transfers and grants		-3 865 495	-3 398 121
Finance costs		-576 525	-617 534
<b>Net cash flow from operating activities</b>	<b>43</b>	<b>100 863 934</b>	<b>66 530 072</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<b>Receipts:</b>			
Proceeds on disposal of Property, Plant and Equipment		911 450	30 000
(Increase)/ decrease in loans receivable		95 678	-4 812
<b>Payments:</b>			
Purchase of Property, Plant and Equipment:			
Additions infrastructure	7	-49 482 779	-46 991 981
Acquisitions	7	-18 663 930	-11 548 129
Intangible assts	10	-355 340	-265 830
<b>Net cash flows from investing activities</b>		<b>-67 494 921</b>	<b>-58 780 752</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>Receipts:</b>			
Increase in consumer deposits		377 889	119 700
<b>Payments:</b>			
Repayment of loans payable	44	-342 816	-342 816
(Increase)/ decrease in investments		-	-
<b>Net cash flows from financing activities</b>		<b>35 073</b>	<b>-223 116</b>
Net increase/ (decrease) in cash and cash equivalents	45	33 404 086	7 526 203
Cash and cash equivalents at the beginning of the year		79 034 476	71 508 272
<b>Cash and cash equivalents at the end of the year</b>	<b>6</b>	<b>112 438 562</b>	<b>79 034 476</b>

UMLALAZI MUNICIPALITY

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

FOR THE YEAR ENDED 30 JUNE 2016

	Approved Budget 2016	Adjustments	Final Budget 2016	Actual 2016	Difference: Final Budget and Actual 2016	Variance 2016	Explanation of significant variances greater than 10% versus budget
	R		R	R	R	%	
<b>REVENUE</b>							
<b>Revenue from Non-exchange Transactions</b>	<b>268 740 720</b>	<b>29 775 760</b>	<b>298 516 480</b>	<b>376 746 435</b>	<b>78 229 955</b>		
<b>Taxation revenue</b>	<b>42 748 200</b>	<b>6 792 880</b>	<b>49 541 080</b>	<b>48 690 257</b>	<b>-850 823</b>		
Property rates	41 997 180	5 456 800	47 453 980	46 375 576	-1 078 404	-2.27%	
Property rates - penalties imposed	751 020	1 336 080	2 087 100	2 314 681	227 581	10.90%	Increased debtors in arrears caused the higher penalties on accounts.
<b>Transfer revenue</b>	<b>202 184 000</b>	<b>21 322 950</b>	<b>223 506 950</b>	<b>295 120 918</b>	<b>71 613 968</b>		
Government grants and subsidies - operational	137 720 100	18 843 020	156 563 120	135 560 171	-21 002 949	-13.42%	Underspending on Rural Electrification grant, Project Management grant (MIG - administration fees) and Disaster Management grant.
Transfers recognised - capital	64 463 900	-8 022 070	56 441 830	65 674 184	9 232 354	16.36%	Improved spending on Municipal Infrastructure Grant.
Public contributions, donated and contributed PPE		10 502 000	10 502 000	93 886 563	83 384 563	793.99%	Ninety one (91) rural facilities transferred to municipality as donated assets, which were not budgeted for.
<b>Other</b>	<b>23 808 520</b>	<b>1 659 930</b>	<b>25 468 450</b>	<b>32 935 261</b>	<b>7 466 811</b>		
Fines	23 808 520	1 659 930	25 468 450	32 197 564	6 729 114	26.42%	More traffic fines issued than anticipated.
Actuarial gains				737 696	737 696		Post-employment health care benefits decreased with valuation report.
<b>Revenue from Exchange Transactions</b>	<b>80 716 690</b>	<b>774 920</b>	<b>81 491 610</b>	<b>82 602 677</b>	<b>1 111 067</b>		
Service charges	69 178 690	-1 433 660	67 745 030	67 626 976	-118 054	-0.17%	
Rental of facilities and equipment	1 469 950	-289 520	1 180 430	1 155 907	-24 523	-2.08%	
Interest earned- external investments	4 054 850	1 639 000	5 693 850	6 466 900	773 050	13.58%	Increased interest due to efficient cash flow management during the year.
Interest earned- outstanding debtors	373 900	-	373 900	457 035	83 135	22.23%	Increased debtors in arrears caused the higher interest on accounts.
Licences and permits	3 600 130	-245 910	3 354 220	3 419 316	65 096	1.94%	
Other income	1 919 170	278 660	2 197 830	2 565 093	367 263	16.71%	The additional income was caused due to old insurance claims transferred to the sundry income line item.
Gain/ (loss) on sale of assets	120 000	826 350	946 350	911 450	-34 900	-3.69%	
<b>Total revenue</b>	<b>349 457 410</b>	<b>30 550 680</b>	<b>380 008 090</b>	<b>459 349 112</b>	<b>79 341 022</b>		
<b>EXPENDITURE</b>							
Employee related costs	88 209 470	-11 121 320	77 088 150	78 909 855	1 821 705	2.36%	
Remuneration of councillors	17 792 480	-228 750	17 563 730	17 442 539	-121 191	-0.69%	
Allowance for doubtful debts	21 583 420	2 710 000	24 293 420	38 918 057	14 624 637	60.20%	More traffic fines issued than anticipated, therefore the increase amount.
Depreciation and impairment loss	28 484 350	8 191 000	36 675 350	39 990 330	3 314 980	9.04%	
Repairs and maintenance	19 491 460	2 045 830	21 537 290	21 332 274	-205 016	-0.95%	
Finance costs	755 720	-172 850	582 870	576 525	-6 345	-1.09%	
Bulk purchases	45 473 840	-738 530	44 735 310	43 727 155	-1 008 155	-2.25%	
Contracted services	25 208 470	4 110 630	29 319 100	28 210 831	-1 108 269	-3.78%	
Employee benefits	8 572 310	-849 940	7 722 370	3 694 924	-4 027 446	-52.15%	Less provision required for post retirement medical, long service awards, performance bonuses and employee bonuses.
General expenses	59 936 710	25 820 690	85 757 400	65 743 632	-20 013 768	-23.34%	Underspending on Rural Electrification grant.
Contributions to staff leave	1 548 400	-	1 548 400	2 563 645	1 015 245	65.57%	The appointment of additional 54 permanent staff caused the increased staff leave accrual.
<b>Total expenditure</b>	<b>317 056 630</b>	<b>29 766 760</b>	<b>346 823 390</b>	<b>341 109 767</b>	<b>-5 713 623</b>		
Profit/ (loss) on fair value adjustment	820 000	1 000 000	1 820 000	10 309 933	8 489 933	466.48%	Fair value adjustments were done on office bearer's regalia and buildings at the Zululand Historical Museum for heritage assets.
<b>SURPLUS/ (DEFICIT) FOR THE YEAR</b>	<b>33 220 780</b>	<b>1 783 920</b>	<b>35 004 700</b>	<b>128 549 279</b>	<b>93 544 579</b>		

**uMLALAZI MUNICIPALITY**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

**NOTE .1 ACCOUNTING POLICIES**

**1.1 BASIS OF PRESENTATION**

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5. These accounting policies and the applicable disclosures have been based on the South African Statements of Generally Accepted Accounting Practices (SA GAAP) including any interpretations of such Statements issued by the Accounting practices Board.

Entities are required to apply the Standards of GRAP where the Minister has determined the effective date. The Minister has determined the effective date for the following Standards of GRAP:

GRAP 1 Presentation of Financial Statements  
GRAP 2 Cash Flow Statements  
GRAP 3 Accounting Policies, Changes in Accounting Estimates and Errors  
GRAP 4 The Effects of Changes in Foreign Exchange Rates  
GRAP 5 Borrowing Costs  
GRAP 6 Consolidated and Separate Financial Statements  
GRAP 7 Investments in Associates  
GRAP 8 Investment in Joint Ventures  
GRAP 9 Revenue from Exchange Transactions  
GRAP 10 Financial Reporting in Hyperinflationary Economies  
GRAP 11 Construction Contracts  
GRAP 12 Inventories  
GRAP 13 Leases  
GRAP 14 Events after the Reporting Date  
GRAP 16 Investment Properties  
GRAP 17 Property, Plant and Equipment  
GRAP 18 Segment Reporting  
GRAP 19 Provisions, Contingent Liabilities and Contingent Assets  
GRAP 21 Impairment of Non-cash-generating Assets  
GRAP 23 Revenue from Non-exchange Transactions (Taxes and Transfers)  
GRAP 24 Presentation of Budget Information in Financial Statements  
GRAP 25 Employee Benefits  
GRAP 26 Impairment of Cash-generating Assets  
GRAP 27 Agricultural GRAP  
GRAP 31 Intangible Assets  
GRAP 100 Non-current Assets Held for Sale and Discontinued Operations  
GRAP 103 Heritage Assets  
GRAP 104 Financial Instruments  
GRAP 105 Transfer of Functions between Entities Under Common Control  
GRAP 106 Transfer of Functions between Entities Not Under Common Control  
GRAP 107 Mergers

Accounting policies for material transactions, events or conditions not covered by the above GRAP Standards have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3.

Directives issued and effective:

- Directive 1: Repeal of Existing Transitional Provisions in, and Consequential Amendments to, Standards of GRAP
- Directive 2: Transitional Provisions for the Adoption of Standards of GRAP by Public Entities, Municipal Entities and Constitutional Institutions.
- Directive 3: Transitional Provisions for the Adoption of Standards of GRAP by High Capacity Municipalities.
- Directive 4: Transitional Provisions for Medium and Low Capacity Municipalities.
- Directive 5: Determining the GRAP reporting framework.
- Directive 6: Provisions for Revenue collected by SARS
- Directive 7: The Application of Deemed Cost on the Adoption of Standards of GRAP
- Directive 9: The application of the Standards of GRAP by trading entities
- Directive 10: Application of The Standards of GRAP by Public Further Education and Training Colleges
- Directive 11: Measurement Bases Following Initial Adoption of Standards of GRAP
- Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities

#### **Interpretations of the Standards of GRAP**

- IGRAP 1: Applying the Probability Test on Initial Recognition of Exchange Revenue
- IGRAP 2: Changes in Existing Decommissioning, Restoration and Similar Liabilities
- IGRAP 3: Determining whether an Arrangement contains a Lease
- IGRAP 4: Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IGRAP 5: Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary Economies
- IGRAP 6: Loyalty Programmes
- IGRAP 7: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- IGRAP 8: Agreements for the Construction of Assets from Exchange Transactions
- IGRAP 9: Distributions of Non-cash Assets to Owners
- IGRAP 10: Assets Received from Customers
- IGRAP 11: Consolidation-Special Purpose Entities
- IGRAP 12: Jointly Controlled Entities-Non-Monetary Contributions
- IGRAP 13: Operating Leases – Incentives
- IGRAP 14: Evaluating the Substance of Transactions Involving the Legal Form of a Lease
- IGRAP 15: Revenue – Barter Transactions Involving Advertising Services
- IGRAP 16: Intangible Assets - Website Costs

#### **Approved guidelines of Standards of GRAP:**

- Guide 1: Guideline on Accounting for Public Private Partnerships

#### **Standards of GRAP that an entity may use to disclose information in its financial statements:**

- GRAP 20 Related Party Disclosures

### **1.1.1 Changes in accounting policy and comparability**

Accounting Policies have been consistently applied, except where otherwise indicated below:

For the years ended 30 June 2013 and 30 June 2014 the municipality has adopted the accounting framework as set out in point 1 above. The details of any resulting changes in accounting policy and comparative restatements are set out below.

The municipality changes an accounting policy only if the change:

- a) is required by a Standard of GRAP; or
- b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the performance or cash flow.

### **1.1.2 Critical judgments, estimations and assumptions**

The following are the critical judgments, apart from those involving estimations, that the management has made in the process of applying the municipality's Accounting Policies and that have the most significant effect on the amounts recognised in Annual Financial Statements:

#### **1.1.2.1 Revenue Recognition**

Accounting Policy 1.10.2 on *Revenue from Exchange Transactions* and Accounting Policy 1.10.3 on *Revenue from Non-exchange Transactions* describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgment, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: *Revenue from Exchange Transactions* and GRAP 23: *Revenue from Non-exchange Transactions*. In particular when services are rendered, whether the service has been rendered. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

#### **1.1.2.2 Financial assets and liabilities**

The classification of financial assets and liabilities into categories is based on judgment by management.

#### **1.1.2.3 Impairment of Financial Assets**

Accounting Policy 1.6.4 on *Impairment of Financial Assets* describes the process followed to determine the value by which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of financial assets as set out in GRAP 104: *Financial Instruments*. The management of the municipality is satisfied that the impairment of financial assets recorded during the year, is appropriate.

#### **1.1.2.4 Useful lives of Property, Plant and Equipment ("PPE")**

As described in Accounting Policies 1.3.3 and 1.4, the municipality depreciates/amortizes its property, plant and equipment, and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives and residual values of the assets are based on industry knowledge.

#### **1.1.2.5 Impairment: Write down of PPE and Inventories**

Significant estimates and judgments are made relating to PPE impairment tests and write down of inventories to net realizable values.

#### **1.1.2.6 Defined Benefit Plan Liabilities**

As described in Accounting Policy 13.3, the municipality obtains actuarial valuations of its defined benefit plan liabilities. The defined benefit obligations of the municipality that were identified are Post-retirement Health Benefit Obligations and Long-service Awards. The estimated liabilities are recorded in accordance with the requirements of IAS 19 *Employee Benefits*. Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in Note 4 to the Annual Financial Statements.

Multi-employer defined benefit funds are accounted for as defined contribution plan as set out in note 1.13.

#### **1.1.3 Presentation currency**

The Annual Financial Statements are presented in South African Rand, rounded off to the nearest Rand which is the municipality's functional currency.

#### **1.1.4 Going concern assumption**

The Annual Financial Statements have been prepared on a going concern basis.

#### **1.1.5 Offsetting**

Assets, liabilities, revenues and expenses have not been offset, except when offsetting is required or permitted by a Standard of GRAP.

#### **1.1.6 New standards and interpretations**

##### **1.1.6.1 Standards and interpretations effective and adopted in the current year**

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard / Interpretation: Effective date: Years beginning on or after Expected Impact:

GRAP 25: Employee benefits 01 April 2013. This standard prescribes similar requirements to those in terms of IAS19: Employee Benefits. Since IAS 19 has been applied in developing the current accounting policy, no impact on the financial statements.

GRAP 1(as revised 2012): Presentation of Financial Statements 01 April 2013 No material changes effected.

GRAP 3 (As revised 2012): Accounting Policies, Change in Accounting Estimates and Errors 01 April 2013 No material changes effected.

GRAP 7 (as revised 2012): Investments in Associates 01 April 2013 Currently not relevant to the municipality.

GRAP 9 (as revised 2012): Revenue from Exchange Transactions 01 April 2013 No material changes effected.

GRAP 12 (as revised 2012): Inventories 01 April 2013 No material changes effected.

GRAP 13 (as revised 2012): Leases 01 April 2013 No material changes effected.

GRAP 16 (as revised 2012): Investments property 01 April 2013 No material changes effected.

GRAP 17 (as revised 2012): Property, Plant and Equipment 01 April 2013 No material changes effected.

GRAP 27 (as revised 2012): Agriculture (Replaces GRAP 101) 01 April 2013 Currently not relevant to the municipality.

GRAP 31 (as revised 2012): Intangible Assets

(Replaces GRAP 102) 01 April 2013 no material changes effected.

IGRAP 1: Applying the Probability Test on the Initial Recognition of Revenue 01 April 2013 this interpretation indicates the treatment of traffic fines. As a result revenue and Expenditure will increase.

#### **1.1.6.2 Standards and interpretations issued, but not yet effective**

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2012 or later periods:

##### **GRAP 105: Transfers of Functions between Entities under Common Control**

The objective of this Standard of GRAP is to establish accounting principles for the acquirer and transferor in a transfer of functions between municipalities under common control.

A transfer of functions between municipalities under common control is a reorganisation and/or reallocation of functions between municipalities that are ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between municipalities under common control, the assets and liabilities should be recognised (by the acquirer) at their carrying amounts and should be derecognised (by the transferor) at their carrying amounts.

The difference between amount of consideration paid or received, if any, and the carrying amounts of assets and liabilities should be recognised in accumulated surplus / (deficit).

Specific disclosures are required when there is a transfer of functions between municipalities under common control.

No effective date has yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

##### **GRAP 106: Transfers of Functions between Entities not Under Common Control**

The objective of this Standard of GRAP is to establish accounting principles for the acquirer in a transfer of functions between municipalities not under common control.

A transfer of functions between municipalities not under common control is a reorganisation and/or reallocation of functions between municipalities that are not ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between municipalities not under common control, the assets and liabilities should be recognised (by the acquirer) at their acquisition-date fair values and should be derecognised (by the acquiree) at their carrying amounts.

The difference between amount of consideration paid or received, if any, and the fair value of assets acquired and liabilities assumed or carrying amounts of assets transferred and liabilities relinquished should be recognised in surplus / (deficit).

For transfer of functions between municipalities not under common control there are some specific recognition and measurement principles and exceptions to the recognition and measurement principles.

Specific disclosures are required when there is a transfer of functions between municipalities not under common control.

No effective date has yet been determined by the Minister of Finance.

The municipality expects to adopt the standard once it becomes effective.

The impact of this amendment is currently being assessed.

##### **GRAP 107: Mergers**

The objective of this Standard of GRAP is to establish accounting principles for the combined municipality and combining municipalities in a merger.

A merger is where a new combined municipality is started, no acquirer can be identified and the combining municipalities do not have any control over the municipality.

In the event of a merger, the assets and liabilities should be recognised (by the combined municipality) at their carrying amounts and should be derecognised (by the combining municipalities) at their carrying amounts.

The difference between the carrying amounts of assets and liabilities should be recognised in accumulated surplus / (deficit).

Specific disclosures are required when there is a merger.

No effective date has yet been determined by the Minister of Finance.

The municipality expects to adopt the standard once it becomes effective.

The impact of this standard is currently being assessed.

#### **GRAP 20: Related Party Disclosures**

The objective of this Standard of GRAP is to ensure that a municipality's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

This Standard of GRAP requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the municipality in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This Standard of GRAP also applies to individual financial statements.

This Standard of GRAP requires that only transactions with related parties where the transactions are not concluded within normal operating procedures or on terms that are not no more or no less favourable than the terms it would use to conclude transactions with another municipality, entity or person are disclosed.

The Standard of GRAP sets out the requirements, inter alia, for the disclosure of:

- control;
- related party transactions; and
- remuneration of management

No effective date has yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective.

It is unlikely that the standard will have a material impact on the municipality's financial statements. For the year under review, Council has applied IPSAS 20.

#### **1.1.6.3 Standards and interpretations not yet effective or relevant**

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2012 or later periods but are not relevant to its operations:

#### **GRAP 18: Segment Reporting**

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which a municipality reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of a municipality that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by a municipality within a particular region.

No effective date has been determined by the Minister of Finance.

The municipality expects to adopt the standard once it becomes effective.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the financial statements.

### **1.2 HOUSING OPERATING ACCOUNT**

The Housing Operating Account was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from National and Provincial Government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to the Housing Operating Account. Housing selling schemes both complete and in progress as at 1 April 1998, were also transferred to the Housing Operating Account.

In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Operating Account. Monies standing to the credit of the Housing Operating Account can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

### **1.3 PROPERTY, PLANT AND EQUIPMENT**



### 1.3.1 Initial Recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of services, rental to others, or for administrative purposes, and are expected to be used during more than one year.

The cost of an item of property, plant and equipment is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

Property, plant and equipment are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost, where applicable, also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

The cost of an item of property, plant and equipment acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at its fair value. If the acquired item could not be measured at its fair value, its cost was measured at the carrying amount of the asset given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

### 1.3.2 Subsequent Measurement

Subsequent expenditure relating to property, plant and equipment is capitalized if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the municipality and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalized when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognizes the part of the asset being replaced and capitalizes the new component.

Subsequently all property plant and equipment, are measured at cost (which includes deemed cost for previously unrecognized assets), less accumulated depreciation and accumulated impairment losses.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when the compensation becomes receivable.

### 1.3.3 Depreciation

Land is not depreciated as it is regarded as having an indefinite life. Depreciation of assets other than land is calculated, using the straight line method, to depreciate their cost to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The depreciation rates are based on the following estimated useful lives.

Depreciation only commences when the asset is available for use, unless stated otherwise.

<u>Details</u>	<u>Years</u>
<b>Infrastructure</b>	
Roads	30 – 80
Electricity	20 - 50
Storm Water	40 – 60
Solid Waste Disposal	10 – 30
<b>Community</b>	
Community and Recreation Facilities	20 – 30
Other Assets	20 – 30
Vehicles	5 – 10
Furniture and Fittings	7 – 10

The assets' residual values, estimated useful lives and depreciation method are reviewed annually, and adjusted prospectively if appropriate, at each reporting date.

#### **1.3.4 Incomplete Construction Work**

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is available for use.

#### **1.3.5 Finance Leases**

Assets capitalized under finance leases are depreciated over their expected useful lives on the same basis as PPE controlled by the entity or where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

#### **1.3.6 Infrastructure Assets**

Infrastructure Assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the municipality.

#### **1.3.7 Derecognition of Property, Plant and Equipment**

The carrying amount of an item of property, plant and equipment is derecognized on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or losses arising from derecognition of an item of property, plant and equipment is included in surplus or deficit for the year when the item is derecognized.

Gains or losses are calculated as the difference between the net book value of assets (cost less accumulated depreciation and accumulated impairment losses) and the sales proceeds.

#### **1.3.8 Impairment of Assets**

##### **1.3.8.1 Cash - generating Assets**

##### **Identification:**

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

##### **Value in use**

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

##### **Discount rate**

The discount rate is a rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

##### **Recognition and measurement**

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortization is recognised immediately in surplus or deficit for the year.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- To the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortization is recognised immediately in surplus or deficit for the year.

### **1.3.8.2 Impairment of Non-cash Generating Assets**

#### **Identification**

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset no impairment recognised.

#### **Value in use**

Value in use of an asset is the present value of the asset's remaining service potential.

The present value of the remaining service potential of an asset is determined using the following approach:

Depreciated replacement cost approach:

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimized" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an oversized or overcapacity asset. Oversized assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimized basis thus reflects the service potential required of the asset.

#### **Recognition and measurement**

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortization is recognised immediately in surplus or deficit for the year.

An impairment loss is recognised for non-cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- To the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortization is recognised immediately in surplus or deficit for the year.

## **1.4 INTANGIBLE ASSETS**

### **1.4.1 Initial Recognition**

Identifiable non-monetary assets without physical substance which are held for use in the production or supply of services, for rental to others, or for administrative purposes are classified and recognised as intangible assets. The municipality recognizes an intangible asset only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalized. Research expenditure is recognised as an expense when incurred.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalized development costs are recorded as intangible assets and amortized from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years. Development assets are tested for impairment annually.

Intangible assets are initially recognised at cost. Where an intangible asset is acquired at no cost or for a nominal consideration, its cost is its fair value as at the date it is acquired. Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

The municipality does not recognize electricity servitudes arising from a legal right as intangible assets.

### **1.4.2 Website Costs**

Any internal expenditure on the development and operation of the municipality's own website is accounted for in accordance with the Standard of GRAP on Intangible Assets. The nature of each activity for which expenditure is incurred (eg. Training employees and maintaining the website) and the website's stage of development or post-development are evaluated to determine the appropriate accounting treatment.

The stages of a website's development can be described as follows:

- (a) Planning – includes undertaking feasibility studies, defining objectives and specifications, evaluating alternatives and selecting preferences.
- (b) Application and infrastructure development- includes obtaining a domain name, purchasing and developing hardware and operating software, installing developed applications and stress testing.
- (c) Graphical design development-includes designing the appearance of web pages.
- (d) Content development- includes creating, purchasing, preparing and uploading information, either text or graphic, on the website before the completion of the website's development. This information may either be stored in separate database that are integrated into (or accessed from) the website or coded directly into the web pages.

### **1.4.3 Subsequent Measurement, Amortization and Impairment**

Subsequently all intangible assets are measured at cost, less accumulated amortization and accumulated impairment losses. Amortization

is charged on a straight-line basis over the intangible assets' useful lives, which are estimated to be between 3 to 5 years.

Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortized, for example servitudes (excluding electricity servitudes) obtained by the municipality give the municipality access to land for specific purposes for an unlimited period - however, such intangible assets are subject to an annual impairment test.

Intangible assets are annually tested for impairment, including intangible assets not yet available for use. Where items of intangible assets have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation. The impairment loss is the difference between the carrying amount and the recoverable amount.

The estimated useful life and amortization method are reviewed annually. Any adjustments arising from the annual review are applied prospectively as a change in accounting estimate in surplus or deficit for the year.

### **1.4.4 Derecognition of Intangible Assets**

The carrying amount of an intangible asset is derecognized on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from derecognition of an intangible asset is included in surplus or deficit when the asset is derecognized. Gains are not included in revenue.

Gains or losses are calculated as the difference between the net book value of assets (cost less accumulated amortization and accumulated impairment losses) and the sales proceeds. This is included in surplus or deficit for the year as a gain or loss on disposal of intangible assets.

## **1.5 INVESTMENT PROPERTY**

### **1.5.1 Initial Recognition**

Investment property includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction or at a nominal value its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

Based on management's judgment, the following criteria have been applied to distinguish investment properties from owner occupied property or property held for resale:

- All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties;
- Land held for a currently undetermined future use. (If the municipality has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation);
- Property that is being constructed or developed for future use as investment property;
- A building owned by the municipality (or held by the municipality under a finance lease) and leased out under one or more operating leases; and
- A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

The following assets do not fall in the ambit of Investment Property and shall be classified as Property, Plant and Equipment, Inventory or Non-Current Assets Held for Sale, as appropriate:

- Property intended for sale in the ordinary course of operations or in the process of construction or development for such sale;
- Property being constructed or developed on behalf of third parties;
- Owner-occupied property, including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal;
- Property that is leased to another entity under a finance lease;
- Property held to provide a social service and which also generates cash inflows, e.g. property rented out below market rental to sporting bodies, schools, low income families, etc; and
- Property held for strategic purposes or service delivery.

### **1.5.2 Subsequent Measurement - Fair Value Model**

Investment property is measured using the fair value model. Investment property is carried at fair value, representing open market value determined annually by external valuers at the reporting date. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. A gain or loss arising from a change in the fair value of investment property is included in surplus or deficit for the year.

The carrying amount of an investment property is derecognized on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from derecognition of an investment property is included in surplus or deficit for the year when the asset is derecognized.

Gains or losses are calculated as the difference between the net book value of assets (fair value) and the sales proceeds.

## 1.6 **HERITAGE ASSETS**

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

### 1.6.1 **Recognition**

The municipality recognises a heritage asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably. Where the municipality holds a heritage asset, but on initial recognition, it does not meet the recognition criteria because it cannot be reliably measured, information on such heritage asset is disclosed in the note on heritage assets.

### 1.6.2 **Initial measurement**

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

#### **Subsequent measurement**

After recognition as an asset, a class of heritage asset is carried at its cost less any accumulated impairment losses.

### 1.6.3 **Impairment**

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

### 1.6.4 **De-recognition**

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

## 1.7 **FINANCIAL INSTRUMENTS**

The municipality has various types of financial instruments and these can be broadly categorized as either *Financial Assets* or *Financial Liabilities*.

### 1.7.1 **Financial Assets - Classification**

A financial asset is any asset consisting of cash or a contractual right to receive cash. The municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto:

- Investments in Fixed Deposits (Banking Institutions, etc)
- Long-term Receivables
- Consumer Debtors
- Certain Other Debtors
- Short-term Investment Deposits
- Bank Balances and Cash

In accordance with GRAP 104, the Financial Assets of the municipality are classified as follows into the three categories allowed by this standard:

Type of Financial Asset	Classification in terms of GRAP 104
Short-term Investment Deposits – Call	Financial assets at amortized cost
Bank Balances and Cash	Financial assets at amortized cost
Long-term Receivables	Financial assets at amortized cost

Consumer Debtors	Financial assets at amortized cost
Other Debtors	Financial assets at amortized cost
Investments in Fixed Deposits	Financial assets at amortized cost

*Financial assets at amortized cost* are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets.

Cash and cash equivalents include cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorizes cash and cash equivalents as financial assets: loans and receivables.

### 1.7.2 Financial Liabilities - Classification

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity. The municipality has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:

- Long-term Liabilities
- Certain Other Creditors
- Bank Overdraft
- Short-term Loans
- Current Portion of Long-term Liabilities
- Consumer Deposits

In accordance with IAS 39.09, the *Financial Liabilities* of the municipality are classified into the following category as allowed by this standard

- Financial liabilities at amortized cost.

Financial liabilities at amortized cost are initially measured at fair value, net of transaction costs. These are subsequently measured at amortized cost using the Effective interest method, with interest expense recognised on an effective yield basis.

### 1.7.3 Initial and Subsequent Measurement

#### 1.7.3.1 Financial Assets:

*Financial assets at amortized cost* are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortized cost using the Effective Interest Method less any impairment, with revenue recognised on an effective yield basis.

Financial assets are recognised on the trade date at which the municipality becomes a party to the contractual provisions of the instrument.

#### 1.7.3.2 Financial Liabilities:

*Financial Liabilities at amortized cost* are initially measured at fair value net of transaction costs. Subsequently, these liabilities are measured at amortized cost using the effective interest method, with interest expense recognised on an effective yield basis.

Financial liabilities are recognised on the trade date at which the municipality becomes a party to the contractual provisions of the instrument.

### 1.7.4 Impairment of Financial Assets

Financial assets are assessed for indicators of impairment at reporting date. Financial assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with GRAP 104.

Initially Accounts Receivable are valued at fair value and subsequently carried at amortized cost using the effective interest rate method. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year-end. Amounts receivable within 12 months from the date of reporting are classified as current.

A provision for impairment of trade receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The provision is made whereby the recoverability of Consumer Debtors is assessed individually or collectively after grouping the assets in financial assets with similar credit risk characteristics if individual assessment was not possible.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets and recognised in surplus or deficit for the year with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in surplus or deficit for the year.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through surplus or deficit for the year to the extent that the carrying amount of the instruments at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognised.

#### **1.7.5 Derecognition of Financial Assets**

The municipality derecognizes Financial Assets only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of Financial Assets due to non recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred financial asset, the municipality continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

#### **1.7.6 Derecognition of Financial Liabilities**

The municipality derecognizes Financial Liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

### **1.8 RISK MANAGEMENT OF FINANCIAL ASSETS AND LIABILITIES**

It is the policy of the municipality to disclose information that enables the user of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the municipality is exposed on the reporting date.

Risks and exposure are disclosed as follows:

#### **1.8.1 Credit Risk**

- Each class of financial assets is disclosed separately.
- Maximum exposure to credit risk not covered by collateral is specified.
- Financial assets covered by collateral are specified.

#### **1.8.2 Liquidity Risk**

Liquidity risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

- A maturity analysis for financial liabilities (where applicable) that shows the remaining undiscounted contractual maturities is disclosed in the notes to the annual financial statements.

#### **1.8.3 Interest Risk**

Interest rate risk originates from the uncertainty about the fair value or future cash flows of a financial instrument which fluctuate because of changes in market interest rates.

- Borrowings issued at variable rates expose the municipality to cash flow interest rate risk.
- Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

Management has assessed the impact of interest rate risk on the operations of the municipality and considers the risk to be negligible.

#### **1.8.4 Market Risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rate and equity prices will affect the municipality's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.



## **1.9 INVENTORIES**

Inventories comprising consumable stores, raw materials and finishing goods are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, and then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realizable value, determined on the weighted average cost.

Inventories are measured at the lower of cost and current replacement cost where they are held for:

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge

Unsold properties represent unsold units in economic selling schemes where the net realizable value of each unit is either nil or a nominal amount. As a consequence of the passage of time the municipality is not in a position to determine the cost of such inventory. Furthermore, the use of current replacement cost would not only distort the statement of financial position by inflating the value of inventories but would also result in a credit to the housing operating account contrary to section 14 of the Housing Act, 1998. Accordingly unsold properties are stated in the annual financial statements at net realizable value.

Redundant and slow-moving inventories are identified and written down from cost to net realizable value with regard to their estimated economic or realizable values.

## **1.10 NON-CURRENT ASSETS HELD-FOR-SALE AND DISCONTINUED OPERATIONS**

### **1.10.1 Non-current assets held for sale**

#### **1.10.1.1 Initial Recognition**

Non-current Assets and Disposal Groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Council must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

#### **1.10.1.2 Subsequent Measurement**

Non-current Assets (and Disposal Groups) classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortized) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

### **1.10.2 Discontinued operations**

A discontinued operation is a component of the municipality that either has been disposed of or is classified as held for sale and:

- (a) represents a distinguishable activity, group of activities or geographical area of operations;
- (b) is part of a single co-ordinated plan to dispose of a distinguishable activity, group of activities or geographical area of operations; or
- (c) is a controlled entity acquired exclusively with a view to resale.

Discontinued operations are presented separately from continuing operations in the annual financial statements.

## **1.11 REVENUE RECOGNITION**

### **1.11.1 General**

#### *Revenue from exchange transactions*

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue comprises the fair value of the consideration received or receivable for the sale or rendering of services in the ordinary course of the municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The municipality recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits or service potential will flow to the municipality and when specific criteria have been met for each of the municipality's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

#### *Revenue from non-exchange transactions*

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

### **1.11.2 Revenue from Exchange Transactions**

#### **1.11.2.1 Service Charges**

Service charges relating to electricity are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

#### **1.11.2.2 Pre-paid Electricity**

Revenue from the sale of electricity pre-paid meter cards are recognised at the point of sale. Revenue from the sale of electricity prepaid meter cards made in the last month of the financial year is recognised based on an estimate of the prepaid electricity consumed as at the reporting date with reference to the consumption patterns of the individual users.

#### **1.11.2.3 Finance income**

Interest earned on investments is recognised in surplus or deficit for the year on the time proportionate basis that takes into account the effective yield on the investment.

#### **1.11.2.4 Tariff Charges**

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorized tariff. This includes the issuing of licenses and permits.

#### **1.11.2.5 Rentals**

Revenue from the rental of facilities and equipment classified as operating leases is recognised on a straight-line basis over the term of the lease agreement, where such lease periods span over more than one financial year.

### **1.11.3 Revenue from Non-exchange Transactions**

#### **1.11.3.1 Rates and Taxes**

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

#### **1.11.3.2 Fines**

Revenue from the issuing of fines is recognized when:

It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognized when the public prosecutor pays over to the municipality the cash actually collected on summonses issued.

### **1.11.3.3 Public contributions**

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use. Where public contributions have been received and the municipality has not met the condition, a liability is recognised.

### **1.11.3.4 Revenue from Recovery of Unauthorized, Irregular, Fruitless and Wasteful Expenditure**

Revenue from the recovery of unauthorized, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councilors or officials is virtually certain. Such revenue is based on legislated procedures.

## **1.12 GOVERNMENT GRANTS AND RECEIPTS**

Income received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised as Accounts Receivable in the period in which they become receivable.

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the liability and if it is the municipality's interest it is recognised as interest earned in surplus or deficit for the year.

## **1.13 PROVISIONS**

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the obligation.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

## **1.14 EMPLOYEE BENEFITS**

### **1.14.1 Short-term Employee Benefits**

Remuneration to employees is recognised in surplus or deficit for the year as the services are rendered, except for non-accumulating benefits, which are only recognised when the specific event occurs.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as an accrual in the Statement of Financial Position.

Liabilities for annual and performance bonuses are recognized as they accrue to employees.

Annual bonuses accrue to employees on an annual basis, based on the employee contract. Performance bonuses accrue to senior managers on an annual basis, subject to certain conditions. These accruals are an estimate of the amount due to staff as at the financial year end.

### **1.14.2 Past service costs**

Past service costs are recognised immediately in surplus or deficit, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

### **1.14.3 Defined Contribution Plans**

A **defined contribution plan** is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in surplus or deficit for the year in which the service is rendered by the relevant employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. The municipality has no further payment obligations once the contributions have been paid.

#### **1.14.4 Defined Benefit Plans**

A **defined benefit plan** is a post-employment benefit plan other than a defined contribution plan.

For defined benefit plans the cost of providing the benefits is determined using the projected unit credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged to surplus or deficit for the year in which they arise.

##### **1.14.4.1 Pension obligations**

The municipality and its employees contribute to 4 different pension funds, namely Natal Joint Municipal Pension Fund and South African Local Authority Pension Fund. The KZN Municipal Pension Fund is a defined contribution fund. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year they become payable. Natal Joint Superannuation & Retirement Funds and Government Employee Pension Fund are defined benefit funds. The Natal Joint Provident Fund and South African Local Authority Pension Fund are defined contribution funds.

The schemes are funded through payments to fund administrator or trustee-administered funds, determined by periodic actuarial calculations.

Defined benefit plans have been accounted for as defined contribution plans in accordance with the requirements on multi-employer plans where sufficient information is not available to account for such plans as defined benefit plans. As the fund administrators do not have sufficient information available to allocate the shortfall on liabilities to individual employers, no liability is recognised for any shortfall of fund asset as compared to fund liabilities. Any surcharges that may be levied by the fund from time to time in order to compensate for shortfalls, are recognised as expenses in the period in which they become payable to the fund.

As surcharges are advised long in advance, based on actuarial valuations of the fund as a whole, the necessary provision for the payment thereof is made in the course of the municipality's normal budgeting processes."

##### **1.14.4.2 Post-retirement Health Care Benefits:**

The municipality has an obligation to provide Post-retirement Health Care Benefits to certain of its retirees. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and recognised actuarial gains and losses, adjusted by past service costs where applicable. The plan is unfunded. The present value of the defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and an appropriate discount rate. Valuations of these obligations are carried out every year by independent qualified actuaries.

Actuarial gains or losses are accounted for in full and are recognised in the Statement of Financial Performance.

##### **1.14.4.3 Long-service Allowance**

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, as well as additional once-off leave calculated in terms of the rules of the scheme, after 10, 15, 20, 25, 30, 35, 40 and 45 years of continued service.

The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for in surplus or deficit for the year.

Actuarial gains or losses are accounted for in full and are recognised in surplus or deficit for the year.

#### **1.15 LEASES**

##### **1.15.1 The Municipality as Lessee**

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or Intangible Assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Corresponding liabilities are included in the Statement of Financial Position as Finance Lease Liabilities. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred. Lease payments are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to Property, plant, equipment or Intangible Assets. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised as an expense in surplus or deficit for the year on a straight-line basis over the term of the relevant lease.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### **1.15.2 The Municipality as Lessor**

Operating lease rental income is recognised on a straight-line basis over the term of the relevant lease.

### **1.16 BORROWING COSTS**

The municipality capitalises borrowing costs incurred that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset are recognised as an expense in surplus or deficit for the year.

It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established - the municipality expenses borrowing costs when it is inappropriate to capitalise it. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete.

### **1.17 VALUE ADDED TAX**

The Municipality accounts for Value Added Tax on the payments basis.

### **1.18 CASH AND CASH EQUIVALENTS**

Cash includes cash-on-hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks and investments in financial instruments, net of bank overdrafts.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

### **1.19 UNAUTHORISED EXPENDITURE**

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

### **1.20 IRREGULAR EXPENDITURE**

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000), and the Public Office Bearers Act (Act No 20 of 1998) or is in contravention of the Municipality's or Municipal Entities' supply chain management policies. Irregular expenditure excludes unauthorised expenditure. Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

### **1.21 FRUITLESS AND WASTEFUL EXPENDITURE**

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

### **1.22 CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND ERRORS**

Changes in accounting policies due to adoption of newly effective Standards of GRAP have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy or where allowed transitional provisions had been adopted. In such cases the municipality would restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Errors are corrected retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality would restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

### **1.23 RELATED PARTIES**

Individuals, including councilors, as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

### **1.24 EVENTS AFTER THE REPORTING DATE**

Events after the reporting date that have been classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

### **1.25 COMPARATIVE INFORMATION**

#### **1.25.1 Prior year comparatives**

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are reclassified. The nature and reasons for the reclassification are disclosed.

### **1.26 CONTINGENT ASSETS AND CONTINGENT LIABILITIES**

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the annual financial statements.

### **1.27 TREATMENT OF ADMINISTRATION AND OTHER OVERHEAD EXPENSES**

The costs of internal support services are transferred to the various services and departments to whom resources are made available.

### **1.28 RESERVES**

#### **1.28.1 Capital Replacement Reserve (CRR)**

In order to finance capital assets from internal sources, amounts are transferred out of the accumulated surplus into the Capital Replacement Reserve (CRR) in terms of the funding and reserves policy adopted by the Municipality. The cash in the CRR can only be used to finance capital expenditure appropriated in an approved budget. The CRR is reduced and the accumulated surplus is credited by a corresponding amount when the amounts in the CRR are utilized.

**UMLALAZI MUNICIPALITY**  
Annual Financial Statements for the year ended 30 June 2016

**NOTE 2 - 57: OTHER NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

**2. INVENTORY**

**Stores inventory:**

**Balance at the beginning of the year**

Consumable stores  
Stationery stores  
Electrical maintenance spares  
E Card replacement

**Additions:**

Consumable stores  
Stationery stores  
Electrical maintenance spares  
E Card replacement

**Issued (expenses):**

Consumable stores  
Stationery stores  
Electrical maintenance spares  
E Card replacement

**Balance at the end of the year**

Consumable stores  
Stationery stores  
Electrical maintenance spares  
E Card replacement

	2016	2015
	R	R
	<b>2 546 348</b>	<b>2 697 066</b>
	659 907	654 993
	377 667	502 303
	1 505 270	1 539 427
	3 504	344
	<b>4 435 707</b>	<b>3 434 922</b>
	2 584 967	2 105 817
	538 907	285 441
	1 311 833	1 038 864
	-	4 800
	<b>4 150 884</b>	<b>3 585 639</b>
	2 683 849	2 100 902
	421 167	410 077
	1 043 988	1 073 021
	1 880	1 640
	<b>2 831 172</b>	<b>2 546 349</b>
37	561 026	659 907
39	495 408	377 667
40	1 773 115	1 505 270
47	1 624	3 504

No impairments of the values of inventory have been written off as management considers that all stores are useable and any losses on ultimate realisation are immaterial. Periodically, physical stock counts are carried out and any obsolete and redundant items are identified and written off under Council authority.

**Unsold properties held for resale:**

**Balance at the beginning of the year**

Transfers/ adjustments to Accumulated Surplus

Sold during the year

**Balance at the end of the year**

-	988 999
-	-988 999
-	-

**Total inventory**

<b>2 831 172</b>	<b>2 546 349</b>
------------------	------------------

**UMLALAZI MUNICIPALITY**  
**Annual Financial Statements for the year ended 30 June 2016**

**3. RECEIVABLES FROM EXCHANGE TRANSACTIONS**

**Receivables from exchange transactions**  
Less: Allowance for doubtful debts

	<b>2016</b>	<b>2015</b>
	<b>R</b>	<b>R</b>
	13 375 993	12 529 055
52	-6 683 966	-5 707 309
	<u>6 692 026</u>	<u>6 821 746</u>

**Other receivables from exchange transactions**

Salary control  
Other sundry receivables  
Survey control

45	3 343	2 385
49	30 028	88 684
51	1 209 208	1 209 208
	<u>7 934 606</u>	<u>8 122 023</u>

**Receivables from exchange transactions**

**VAT receivable**

44	<u>14 479 582</u>	<u>7 026 456</u>
----	-------------------	------------------

Management have considered the effects of any impairment in the values of outstanding and the value of the allowance for doubtful debts. The allowance is adequate to account for any material losses expected to arise from any adjustments that are required to be made to outstanding balances.

**Receivables from exchange transactions**

Electricity  
Housing  
Refuse  
Sundries

201	5 028 178	5 039 000
	1 899 609	1 866 967
203	2 492 989	2 099 909
204	3 955 217	3 523 179
	<u>13 375 993</u>	<u>12 529 055</u>

Amounts written off as doubtful debts

As a percentage of total operating revenue

Debtors - number of days outstanding

306 132	89 124
0.07%	0.03%
112	72

**Age analysis**

**Electricity**

Current ( 0 to 30 days)  
31 to 60 days  
61 to 90 days  
91 to 120 days  
121 days and over

3 764 419	4 396 744
109 498	91 162
397 759	63 507
84 642	48 758
671 860	438 829

<u>5 028 178</u>	<u>5 039 000</u>
------------------	------------------



**UMLALAZI MUNICIPALITY**  
**Annual Financial Statements for the year ended 30 June 2016**

	<b>2016</b>	<b>2015</b>
	<b>R</b>	<b>R</b>
<b>RECEIVABLES FROM EXCHANGE TRANSACTIONS (CONTINUE)</b>		
<b>Age analysis</b>		
<b>Refuse</b>		
Current ( 0 to 30 days)	1 094 970	1 058 630
31 to 60 days	121 354	113 732
61 to 90 days	84 438	77 679
91 to 120 days	65 748	62 368
121 days and over	1 126 479	787 500
	<b>2 492 989</b>	<b>2 099 909</b>
<b>Sundries</b>		
Current ( 0 to 30 days)	379 926	580 766
31 to 60 days	129 704	83 981
61 to 90 days	4 165	49 235
91 to 120 days	77 896	88 205
121 days and over	3 363 526	2 720 992
	<b>3 955 217</b>	<b>3 523 179</b>
<b>Housing</b>		
Current ( 0 to 30 days)	593 292	8 835
31 to 60 days	4 727	6 547
61 to 90 days	4 795	6 009
91 to 120 days	4 616	5 833
121 days and over	1 292 179	1 839 743
	<b>1 899 609</b>	<b>1 866 967</b>
<b>Reconciliation of the allowance for doubtful debts for receivables from exchange transactions:</b>		
<b>Balance at the beginning of the year</b>	5 707 309	4 040 227
Contributions to allowance:		
From operating account	1 126 752	1 711 411
From housing operating account	156 038	44 795
	6 990 099	5 796 433
Doubtful debts written off against allowance	306 132	89 124
<b>Balance at the end of the year</b>	<b>6 683 966</b>	<b>5 707 309</b>

**UMLALAZI MUNICIPALITY**  
Annual Financial Statements for the year ended 30 June 2016

	<b>2016</b>	<b>2015</b>
	<b>R</b>	<b>R</b>
<b>4. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS</b>		
<b>Receivables from non-exchange transactions</b>		
Rates and penalties	200 24 591 466	12 205 413
Less: Allowance for doubtful debts	54 -17 179 008	-5 906 619
	<b>7 412 458</b>	<b>6 298 794</b>
<b>Other receivables from non-exchange transactions</b>		
Traffic fines	202 62 380 040	34 314 654
Less: Allowance for doubtful debts	56 -58 752 408	-32 338 168
	<b>3 627 631</b>	<b>1 976 486</b>
Payments made in advance	18 2 294 493	181 856
Accrued income	19 1 160 143	938 135
	<b>14 494 725</b>	<b>9 395 271</b>
<b>Age analysis</b>		
<b>Rates and penalties</b>		
Current ( 0 to 30 days)	1 986 713	2 068 251
31 to 60 days	407 032	354 854
61 to 90 days	315 207	290 662
91 to 120 days	614 441	264 698
121 days and over	21 268 073	9 226 948
	<b>24 591 466</b>	<b>12 205 413</b>
<b>Reconciliation of the allowance for doubtful debts for rates and penalties:</b>		
<b>Balance at the beginning of the year</b>	5 906 619	2 365 411
Contributions to allowance: From operating account	11 377 065	3 589 695
	17 283 684	5 955 106
Doubtful debts written off against allowance	104 676	48 487
<b>Balance at the end of the year</b>	<b>17 179 008</b>	<b>5 906 619</b>
<b>Reconciliation of the allowance for doubtful debts for traffic fines:</b>		
<b>Balance at the beginning of the year</b>	32 338 168	10 372 197
Contributions to allowance: From operating account	26 414 240	21 965 971
	58 752 408	32 338 168
Doubtful debts written off against allowance	-	-
<b>Balance at the end of the year</b>	<b>58 752 408</b>	<b>32 338 168</b>
<b>Summary of allowance for doubtful debts for the year:</b>		
Receivables from exchange transactions: From operating account	1 126 752	1 711 411
Receivables from non - exchange transactions:		
Rates and penalties: From operating account	11 377 065	3 589 695
Traffic fines: From operating account	26 414 240	21 965 971
	<b>38 918 057</b>	<b>27 267 077</b>

**UMLALAZI MUNICIPALITY**  
**Annual Financial Statements for the year ended 30 June 2016**

	<u>2016</u>	<u>2015</u>
	R	R
<b>5. LOANS RECEIVABLE</b>		
Deposits with creditors	293 739 165	690 164
	<u><b>739 165</b></u>	<u><b>690 164</b></u>
Housing loans	6 653 812	749 490
<b>Less: Current portion transferred to current receivables</b>		
Housing loans	-4 645	-5 939
Old age home	-15 349	-15 349
	<u><b>-19 995</b></u>	<u><b>-21 288</b></u>
<b>Total</b>	<u><b>633 817</b></u>	<u><b>728 202</b></u>
<b>Housing selling scheme loans</b>		
Loans have been granted to individuals who qualified in terms of the KwaZulu-Natal Department of Human Settlements programme. The loans are repayable over terms ranging from 5 to 30 years at rates varying between 11.25% and 13.5%		
<b>6. CASH AND CASH EQUIVALENTS</b>		
The municipality has the following bank account:		
<b>Current account (Primary Bank Account)</b>		
First National Bank Limited, Eshowe Branch - Account No. 52 191 090 523		
Bank statement balance at the beginning of the year	7 687 426	4 106 572
Bank statement balance at the end of the year	2 322 780	7 687 426
Cash book balance at the beginning of the year	6 784 042	8 556 334
<b>Cash and cash equivalents consist of the following:</b>		
Cash book balance at the end of the year	352 11 685 976	6 784 042
Petty cash	350 24 700	24 700
Floats	351 1 440	1 440
Short-term investment deposits	307 100 726 446	72 224 294
	<u><b>112 438 562</b></u>	<u><b>79 034 476</b></u>
The municipality has the following short-term investment deposit accounts:		
<b>Standard Bank</b>	<b>First National Bank</b>	<b>First National Bank</b>
Acc No 068 872 208-001	Acc No 62 002 158 758	Acc No 62 151 319 186
Acc No 068 872 208-002	Acc No 62 024 283 038	Acc No 62 158 037 377
Acc No 068 872 208-004	Acc No 62 071 691 309	Acc No 62 239 675 260
Acc No 068 872 208-005	Acc No 62 094 589 036	Acc No 62 299 224 594
Acc No 068 872 208-008	Acc No 62 120 320 081	Acc No 62 378 736 593
Acc No 068 872 208-009	Acc No 62 124 937 246	
		<b>Investec</b>
		Acc No 1100 - 511779-500
		Acc No 1100 - 511779-501
		<b>Nedbank</b>
		Acc No 03/7165024204
		Acc No 03/7165024212
		Acc No 03/7165024182
		Acc No 03/7165024174
		Acc No 03/7165024190

uMLALAZI MUNICIPALITY

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

7. PROPERTY, PLANT AND EQUIPMENT

	Properties	Community assets	Vehicles	Roads	Storm water	Electrical	Furniture and equipment	Computer equipment	Machinery and equipment	Assets under construction	Total
<b>Reconciliation of carrying value</b>											
<b>Carrying values at 01 July 2015</b>	<b>130 846 827</b>	<b>120 702 698</b>	<b>12 611 172</b>	<b>267 321 490</b>	<b>41 381 759</b>	<b>47 416 682</b>	<b>2 621 199</b>	<b>2 215 120</b>	<b>3 065 598</b>	<b>32 292 397</b>	<b>660 474 937</b>
<b>Cost</b>	130 846 827	186 432 497	23 882 009	414 602 933	88 291 676	66 116 105	5 774 068	4 207 067	7 021 007	32 292 397	959 466 588
Cost	130 846 827	186 432 497	23 882 009	414 602 933	88 291 676	66 116 105	5 774 068	4 207 067	7 021 007	32 292 397	959 466 588
<b>Accumulated depreciation</b>	-	-62 022 056	-10 912 626	-146 346 302	-46 085 488	-18 699 423	-3 149 923	-1 988 730	-3 857 741		-293 062 289
		-62 022 056	-10 912 626	-146 346 302	-46 085 488	-18 699 423	-3 149 923	-1 988 730	-3 857 741		-293 062 289
<b>Accumulated impairment</b>	-3 707 743	-358 212	-935 137	-824 431			-2 947	-3 217	-97 668		-5 929 355
	-3 707 743	-358 212	-935 137	-824 431			-2 947	-3 217	-97 668		-5 929 355
Additions infrastructure	-	-	-	-	-	-	-	-	-	49 482 779	49 482 779
Assets under construction released	-	1 677 443		18 305 121	140 273	-	-	-	-	-20 122 837	-0
Acquisitions	750 000	3 496 434	3 594 641	2 539 285	899 235	1 454 943	1 344 428	2 929 318	1 830 842		18 839 125
Donated assets		93 424 933					281 990		179 640		93 886 563
Disposals		-38 048	-1 508 046	-8 731 809			-98 276	-141 370	-238 864		-10 756 412
Depreciation	-	-9 212 524	-2 512 608	-14 915 115	-2 763 631	-2 606 720	-798 601	-784 647	-843 889		-34 437 735
Based on cost	-	-9 212 524	-2 512 608	-14 915 115	-2 763 631	-2 606 720	-798 601	-784 647	-843 889		-34 437 735
Carrying value of disposals	-	22 620	979 801	5 222 370			77 879	112 501	176 691		6 591 862
Cost/ revaluation	-										-
Accumulated depreciation	-										-
Impairment loss		-1 797 379	-151 556	-1 123 441	-645 147	-1 363 411	-179 465	-42 505	-32 990		-5 335 895
Impairment loss - disposals		3 822	358 212	68 454			2 601	3 214	48 893		485 195
<b>Carrying values at 30 June 2016</b>	<b>131 596 827</b>	<b>208 279 999</b>	<b>13 371 616</b>	<b>268 686 354</b>	<b>39 012 489</b>	<b>44 901 494</b>	<b>3 251 755</b>	<b>4 291 630</b>	<b>4 185 922</b>	<b>61 652 339</b>	<b>779 230 421</b>
	131 596 827	285 031 308	27 476 650	426 715 529	89 331 184	67 571 047	7 196 376	7 248 886	9 028 541	61 652 339	1 110 918 642
Cost	131 596 827	285 031 308	27 476 650	426 715 529	89 331 184	67 571 047	7 196 376	7 248 886	9 028 541	61 652 339	1 110 918 642
<b>Accumulated depreciation</b>	-	-71 211 960	-12 445 433	-156 039 047	-48 849 119	-21 306 143	-3 870 645	-2 660 876	-4 524 939		-320 908 162
	-	-71 211 960	-12 445 433	-156 039 047	-48 849 119	-21 306 143	-3 870 645	-2 660 876	-4 524 939		-320 908 162
<b>Accumulated impairment</b>	-5 501 301	-151 556	-1 990 125	-1 469 578	-1 363 411	-179 811	-42 508	-81 765			-10 780 055
	-5 501 301	-151 556	-1 990 125	-1 469 578	-1 363 411	-179 811	-42 508	-81 765			-11 265 250
<b>Carrying values at 30 June 2016</b>	<b>131 596 827</b>	<b>208 318 046</b>	<b>14 879 662</b>	<b>268 686 353</b>	<b>39 012 489</b>	<b>46 264 905</b>	<b>3 145 920</b>	<b>4 545 501</b>	<b>4 421 837</b>	<b>61 652 339</b>	<b>779 230 420</b>

**uMLALAZI MUNICIPALITY**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**7. PROPERTY, PLANT AND EQUIPMENT (CONTINUE)**

	(Restated) Properties	(Restated) Community assets	(Restated) Vehicles	(Restated) Roads	(Restated) Storm water	(Restated) Electrical	(Restated) Furniture and equipment	(Restated) Computer equipment	(Restated) Machinery and equipment	Assets under construction	(Restated) Total
<b>Reconciliation of carrying value</b>											
<b>Carrying values at 01 July 2014</b>	<b>128 846 827</b>	<b>119 863 148</b>	<b>12 356 577</b>	<b>253 590 419</b>	<b>41 796 924</b>	<b>35 188 161</b>	<b>2 806 887</b>	<b>1 260 389</b>	<b>2 711 630</b>	<b>19 201 254</b>	<b>617 622 215</b>
<b>Cost</b>	128 846 827	170 466 093	21 041 387	388 359 789	85 036 272	65 914 105	5 411 937	2 852 064	5 912 559	19 201 254	893 042 288
<b>Cost</b>	128 846 827	170 466 093	21 041 387	388 359 789	85 036 272	65 914 105	5 411 937	2 852 064	5 912 559	19 201 254	893 042 288
<b>Accumulated depreciation</b>	-	-50 602 945	-8 684 810	-134 769 367	-43 239 347	-30 725 946	-2 605 050	-1 591 675	-3 200 929		-275 420 069
	-	-50 602 945	-8 684 810	-134 769 367	-43 239 347	-30 725 946	-2 605 050	-1 591 675	-3 200 929		-275 420 069
<b>Accumulated impairment</b>		-3 422 469	-318 993	-210 996	-	-	-2 146	-3 193	-67 473	-	-4 025 270
		-3 422 469	-318 993	-210 996			-2 146	-3 193	-67 473		-4 025 270
Additions infrastructure										46 991 983	46 991 983
Assets under construction released		5 175 929		26 264 162	2 447 083				13 666	-33 900 840	-
Acquisitions	2 000 000	6 686 875	3 159 615	371 083	808 321	202 000	255 311	1 348 008	1 162 255		15 993 467
Donated assets		7 526 070									7 526 070
Disposals				-181 107							-181 107
Prior year corrections		-3 422 470	-318 993	-210 998			108 232	6 995	-67 473		-3 904 707
Move to heritage assets							-1 411				-1 411
Prior year corrections on depreciation					14 554 971						14 554 971
Depreciation		-11 419 111	-2 227 816	-11 607 618	-2 846 141	-2 528 448	-544 873	-397 055	-656 812	-	-32 227 874
<b>Based on cost</b>	-	-11 419 111	-2 227 816	-11 607 618	-2 846 141	-2 528 448	-544 873	-397 055	-656 812		-32 227 873
Carrying value of disposals											
Cost/ revaluation				30 683							30 683
Accumulated depreciation	-	-	-								-
Impairment loss	-	-285 274	-39 219	-724 141	-824 431		-801	-24	-30 195		-1 904 085
Fair value adjustment											-
<b>Carrying values at 30 June 2015</b>	<b>130 846 827</b>	<b>124 125 167</b>	<b>12 930 164</b>	<b>267 532 484</b>	<b>41 381 759</b>	<b>32 861 711</b>	<b>2 514 379</b>	<b>2 208 125</b>	<b>3 133 070</b>	<b>32 292 397</b>	<b>-</b>
	130 846 827	186 432 497	23 882 009	414 602 933	88 291 676	66 116 105	5 774 068	4 207 067	7 021 007	32 292 397	959 466 588
<b>Cost</b>	<b>130 846 827</b>	<b>186 432 497</b>	<b>23 882 009</b>	<b>414 602 933</b>	<b>88 291 676</b>	<b>66 116 105</b>	<b>5 774 068</b>	<b>4 207 067</b>	<b>7 021 007</b>	<b>32 292 397</b>	<b>959 466 589</b>
<b>Accumulated depreciation</b>	-	-62 022 056	-10 912 626	-146 346 302	-46 085 488	-18 699 423	-3 149 923	-1 988 730	-3 857 741		-293 062 289
	-	-62 022 056	-10 912 626	-146 346 302	-46 085 488	-18 699 423	-3 149 923	-1 988 730	-3 857 741		-293 062 288
<b>Accumulated impairment</b>		-3 707 743	-358 212	-935 137	-824 431		-2 947	-3 217	-97 668		-5 929 355
		-3 707 743	-358 212	-935 137	-824 431		-2 947	-3 217	-97 668		-5 929 355
<b>Carrying values at 30 June 2015</b>	<b>130 846 827</b>	<b>120 702 698</b>	<b>12 611 172</b>	<b>267 321 490</b>	<b>41 381 759</b>	<b>47 416 682</b>	<b>2 621 199</b>	<b>2 215 120</b>	<b>3 065 598</b>	<b>32 292 397</b>	<b>660 474 937</b>

Refer to Note 57.1 for detail regarding the restatement of previous year balances.

**UMLALAZI MUNICIPALITY**  
**Annual Financial Statements for the year ended 30 June 2016**

	<u>2016</u> R	<u>2015</u> R
<b>8. ASSETS UNDER CONSTRUCTION</b>		
<b>For the year ended 30 June 2015:</b>		
<u>Buildings</u>		
New testing station (Eshowe)		1 003 402
<u>Sport and recreation</u>		
Kwayabu Sports field		421 161
Kwabulawayo Sports field		1 192 130
Nkume Sports field		1 192 079
<u>Road transport</u>		
King Dinuzulu suburb/ Sunnydale link road		4 392 257
Matshamhlope road		2 843 754
King Dinuzulu suburb bus route		582 550
Osborn road rehabilitation		8 186 450
Kangela street rehabilitation		12 158 912
Bele road		319 733
<b>For the year ended 30 June 2016:</b>		
<u>Buildings</u>		
New testing station (Eshowe)	1 003 402	
Devine Life Society of SA crèches	1 170 000	
Gingindlovu fire station	2 693 302	
<u>Community halls</u>		
Sqwanjana hall	3 586 083	
<u>Sport and recreation</u>		
Kwayabu Sports field	3 705 999	
Kwabulawayo Sports field	17 815 444	
Nkume Sports field	2 484 208	
<u>Road transport</u>		
Matshamhlope road	2 843 754	
King Dinuzulu suburb bus route	859 523	
Bele road	5 328 519	
Link road: Industrial area and Eshowe taxi rank	133 693	
Kangela street rehabilitation	14 193 267	
Mtipela road	841 118	
Naickerville/ Sandlwana High School intersection	259 150	
Rehabilitation of urban roads	4 734 878	
	<u><b>61 652 339</b></u>	<u><b>32 292 427</b></u>
<b>9. REPAIRS AND MAINTENANCE ON INFRASTRUCTURE ASSETS</b>		
Community assets	1 182 143	337 968
Roads and storm water	11 882 834	10 711 152
Electricity	1 727 932	2 136 333
(Extracted from Note 35)	<u><b>14 792 909</b></u>	<u><b>13 185 453</b></u>

**UMLALAZI MUNICIPALITY**  
Annual Financial Statements for the year ended 30 June 2016

**10. INTANGIBLE ASSETS**

**Carrying values at the beginning of the year**

Cost  
Prior year error correction on assets  
Accumulated depreciation

Additions  
Depreciation

**Carrying values at the end of the year**

Cost  
Accumulated depreciation  
Intangible assets are initially recognised at cost and are carried at cost less depreciation.

The municipality does not have any internally generated intangible assets.

2016	2015
R	R
480 615	344 184
1 482 236	1 216 407
-1 001 621	-872 223
355 340	265 830
-216 703	-129 398
<b>619 252</b>	<b>480 615</b>
1 837 576	1 482 236
-1 218 324	-1 001 621

**11. INVESTMENT PROPERTY CARRIED AT FAIR VALUE**

Investment property held by the municipality is as follows:

- i) land leased for cane farming
- ii) land leased to Government Departments
- iii) land and buildings leased to sports associations
- iv) crematorium at Eshowe cemetery
- v) additional pieces of land leased by property owners

The fair value of these properties as valued by the Council's valuers, Messrs. Umhlaba Geomatics Inc.

**Carrying values at the beginning of the year**

Cost  
Acquisitions  
Fair value adjustment  
Fair value of disposals

**Carrying values at the end of the year**

Cost

Properties classified as investment properties at municipal value

Rental income derived from these properties amount to

16 257 000	11 154 802
16 257 000	11 154 802
-	-
-	5 102 198
-	-
<b>16 257 000</b>	<b>16 257 000</b>
16 257 000	16 257 000
8 122 400	8 122 400
868 498	1 147 321

**12. HERITAGE ASSETS**

**Carrying values at the beginning of the year**

Cost  
Acquisitions  
Fair value adjustment  
Prior year error correction on assets

**Carrying values at the end of the year**

Cost

Refer to Note 57.1 for detail regarding the restatement of previous year balances.

	(Restated)
1 411	-
1 411	-
10 309 933	1 411
<b>10 311 344</b>	<b>1 411</b>
10 311 344	1 411

**UMLALAZI MUNICIPALITY**  
**Annual Financial Statements for the year ended 30 June 2016**

		<u>2016</u>	<u>2015</u>
<b>13. INVESTMENTS</b>			
<b>Unlisted</b>			
Shares in co-operative - Coastal Farmers	306	1 000	1 000
		<u><b>1 000</b></u>	<u><b>1 000</b></u>

Council's valuation of unlisted investments

**14. CONSUMER DEPOSITS**

Refuse	29	432 815	279 084
Electricity	30	1 330 849	1 106 692
		<u><b>1 763 664</b></u>	<u><b>1 385 775</b></u>
		<u><b>1 119 750</b></u>	<u><b>394 750</b></u>

Guarantees held in lieu of electricity deposits

**15. PAYABLES FROM EXCHANGE TRANSACTIONS**

Creditors	41	10 655	9 031 196
Deposits - other	35	36 935	73 570
Salary control	48	1 732	2 239
Retention monies	46	6 330 041	4 455 786
Unidentified direct deposits	43	955 540	213 495
Payments received in advance	42	2 726 262	2 736 253
Accrued expenditure	32	5 572 672	2 480 888
Creditors control	53	27 713 363	429 579
Accrued staff leave (Refer note 38)	287	4 552 044	3 328 150
<b>Payables from exchange transactions</b>		<u><b>47 899 242</b></u>	<u><b>22 751 156</b></u>

The fair value of trade and other payables approximate their carrying amounts. Trade and other payables are normally settled on 30 day terms in accordance with the MFMA. No interest is charged for the first 30 days from the date of receipt of the invoice/statement. Thereafter interest is charged in accordance with the credit policies of the various individual creditors.

<b>VAT payable</b>	55	<u><b>776 936</b></u>	<u><b>1 584 956</b></u>
--------------------	----	-----------------------	-------------------------

VAT is payable on the receipts basis. Only once payment is received from debtors, VAT is paid over to SARS.



**uMLALAZI MUNICIPALITY**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2016**

**16. UNSPENT CONDITIONAL GRANTS AND RECEIPTS**

	Balance unspent at 30/06/2016	Received during 2016	Interest earned 2016	Conditions met transferred to revenue	Returned to National Treasury 2016	Balance unspent at 30/06/2015	Received during 2015	Interest earned 2015	Conditions met transferred to revenue	Balance unspent at 30/06/2014
	R	R	R	R	R	R	R	R	R	R
<b>DEPARTMENT OF CO-OPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS</b>										
Disaster management grant	2 192 160	9 100 000		-6 907 840		-				
Support to community service centres grant	462 871	500 000		-37 129						
Small town rehabilitation grant	2 847 590	3 000 000		-152 410						
	<b>5 502 622</b>	<b>12 600 000</b>	<b>-</b>	<b>-7 097 378</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NATIONAL TREASURY</b>										
Municipal Systems Improvement Grant	0	930 000		-930 000	-490 611	490 611	934 000		-443 389	-
Municipal Infrastructure Grant	1 342 477	39 090 000		-40 702 416	-810 000	3 764 893	37 496 000		-39 492 180	5 761 073
Financial Management Grant	-	1 600 000		-1 600 000	-61 241	61 241	1 600 000		-1 538 759	-
Expanded public works programme integrated grant	403 841	3 037 000		-2 633 159		-	2 172 000		-2 172 000	-
	<b>1 746 317</b>	<b>44 657 000</b>	<b>-</b>	<b>-45 865 575</b>	<b>-1 361 852</b>	<b>4 316 745</b>	<b>42 202 000</b>	<b>-</b>	<b>-43 646 328</b>	<b>5 761 073</b>
<b>DEPARTMENT OF HUMAN SETTLEMENTS</b>										
Sunnydale Low Cost Housing	393 972					393 972			-1 146 758	1 540 730
Rural housing project	-					-	240 000		-240 000	
	<b>393 972</b>	<b>-</b>	<b>-</b>	<b>-</b>		<b>393 972</b>	<b>240 000</b>	<b>-</b>	<b>-1 386 758</b>	<b>1 540 730</b>
<b>DEPARTMENT OF ARTS AND CULTURAL</b>										
Community library services grant	151 246	361 000		-350 524		140 770	252 000		-297 308	186 078
	<b>151 246</b>	<b>361 000</b>	<b>-</b>	<b>-350 524</b>		<b>140 770</b>	<b>252 000</b>	<b>-</b>	<b>-297 308</b>	<b>186 078</b>
<b>DEPARTMENT OF SPORT AND RECREATION</b>										
Infrastructure - Sport Facilities	0			-891 031		891 031	1 725 000		-1 358 969	525 000
Maintenance of facilities	-0			-62 488		62 488	150 000		-87 512	
	<b>0</b>	<b>-</b>	<b>-</b>	<b>-953 519</b>		<b>953 519</b>	<b>1 875 000</b>			<b>525 000</b>
<b>DEPARTMENT OF MINERALS AND ENERGY</b>										
Integrated national electrification programme grant	9 351 688	8 000 000		-4 079 441	-863 000	6 294 129	7 000 000		-8 195 450	7 489 579
	<b>9 351 688</b>	<b>8 000 000</b>	<b>-</b>	<b>-4 079 441</b>	<b>-863 000</b>	<b>6 294 129</b>	<b>7 000 000</b>	<b>-</b>	<b>-8 195 450</b>	<b>7 489 579</b>
<b>Unspent conditional grants</b>	<b>17 145 845</b>	<b>65 618 000</b>	<b>-</b>	<b>-58 346 437</b>	<b>-2 224 852</b>	<b>12 099 135</b>	<b>51 569 000</b>	<b>-</b>	<b>-53 525 844</b>	<b>15 502 460</b>
<b>DONATIONS AND PUBLIC CONTRIBUTIONS</b>										
Electrical network upgrade	712 546		37 876			674 669	83 114	28 957		562 599
Dorothy Irons bursary fund	18 036		984			17 052		816		16 236
Indigent support	279 049		14 896			264 153	5 726	14 784		243 643
SMME Establishment	1 943 498		47 617			1 895 881		45 617		1 850 264
<b>Unspent donations and public contributions</b>	<b>2 953 129</b>	<b>-</b>	<b>101 373</b>	<b>-</b>		<b>2 851 756</b>	<b>88 840</b>	<b>90 175</b>	<b>-</b>	<b>2 672 742</b>
<b>UNSPENT CONDITIONAL GRANTS AND RECEIPTS</b>	<b>20 098 974</b>	<b>65 618 000</b>	<b>101 373</b>	<b>-58 346 437</b>	<b>-2 224 852</b>	<b>14 950 892</b>	<b>51 657 840</b>	<b>90 175</b>	<b>-53 525 844</b>	<b>18 175 203</b>

**UMLALAZI MUNICIPALITY**  
**Annual Financial Statements for the year ended 30 June 2016**

	<b>2016</b>	<b>2015</b>
	<b>R</b>	<b>R</b>
<b>17. LOANS PAYABLE</b>		
Annuity loans	4 456 603	4 799 418
	4 456 603	4 799 418
LESS : Current portion transferred to current liabilities	-342 816	-342 816
<b>Total loans payable</b>	<b>4 113 788</b>	<b>4 456 603</b>
(Refer to Appendix A for more detail)		
<b>Annuity loans</b>		
Bear interest of 12.422% per annum, and is redeemed in bi-annual instalments, including interest, over a period of 20 years.		
<b>Fair value impairments</b>		
Long term loans are recorded at the actual liability to loan creditors. No impairment, if any has been recognised.		
<b>18. EMPLOYEE BENEFITS</b>		
Current portion of post retirement medical benefits (Note 20.1)	415 000	424 000
Current portion of long service awards and retirement gifts (Note 20.2)	473 000	429 000
Performance bonuses accrual	709 496	664 390
Employee bonuses accrual	2 630 847	2 075 447
Employee overtime/ standby allowances accrual	323 233	485 655
<b>Total current employee benefits</b>	<b>4 551 575</b>	<b>4 078 493</b>
<b>Performance bonuses accrual</b>		
<b>Balance at the beginning of the year</b>	664 390	237 280
Contributions to provisions	413 800	664 390
Expenditure incurred	-368 695	-237 280
<b>Balance at the end of the year</b>	<b>709 496</b>	<b>664 390</b>
<b>Performance bonuses accrual</b>		
Performance bonuses accrue to employees on an annual basis, subject to certain conditions. The accrual is an estimate of the amount due to staff as at the financial year end.		
<b>Employee bonus accrual</b>		
<b>Balance at the beginning of the year</b>	2 075 447	1 732 657
Contributions to provisions	2 605 589	2 075 447
Expenditure incurred	-2 050 189	-1 732 657
<b>Balance at the end of the year</b>	<b>2 630 847</b>	<b>2 075 447</b>
<b>Employee bonus accrual</b>		
Annual bonuses accrue to employees on an annual basis, based on the employee contract. These accruals are an estimate of the amount due to staff as at the financial year end.		

**UMLALAZI MUNICIPALITY**  
Annual Financial Statements for the year ended 30 June 2016

**EMPLOYEE BENEFITS (CONTINUE)**

**Employee overtime/ standby allowances**

**Balance at the beginning of the year**

Contributions to provisions

Expenditure incurred

**Balance at the end of the year**

Employee overtime/ standby allowances accrual

An accrual is done for the overtime/ standby allowances that accrued to the employees with regards to the financial year.

	2016	2015
	R	R
	485 655	325 134
	323 233	485 655
	-485 655	-325 134
10	<b>323 233</b>	<b>485 655</b>

**19. PROVISIONS**

**Provision for rehabilitation of landfill site**

**Balance at the beginning of the year**

Contribution to provision

Expenditure incurred

**Balance at the end of the year**

	4 888 244	442 906
	175 195	4 445 338
	-	-
300	<b>5 063 439</b>	<b>4 888 244</b>

Provision has been made for the estimated cost to complete the rehabilitation of the council's landfill site in Eshowe.

A consultant was requested to confirm the cost of the rehabilitation.

**20. EMPLOYEE BENEFIT OBLIGATIONS**

**20.1 Provision for post retirement medical benefits**

The Council operates a defined medical aid benefit scheme for the benefit of its permanent employees. Post-retirement medical aid benefits are offered to all employees by subsidising a portion of the medical aid provision after retirement.

An actuarial valuation was carried out at 30 June 2016 and the full liability has been raised which relates to retired employees and existing employees. The main assumptions used by the actuary are:

Discount rate per annum

Health care cost inflation rate

Net effective discount rate

Medical benefit inflation (long term) CPI increases

Yield curve  
CPI + 1%  
Yield curve based  
Difference between  
nominal and yield  
curves

Yield curve  
CPI + 1%  
Yield curve based  
Difference between  
nominal and yield  
curves

**Sensitivity analysis:**

Mortality rate

Deviations from the assumed level of mortality experience of the current employees and the continuation members (pensioners) will have a large impact on the actual cost to the Municipality, if the actual rates of mortality turns out higher than the rates assumed in the valuation basis, the cost to the Municipality in the form of subsidies will reduce and vice versa.

We have illustrated the effect of higher and lower mortality rates by increasing and decreasing the mortality rates by 20%. The effect is as follows:

	Mortality rate minus 20%	Valuation Assumption	Mortality rate plus 20%
Total accrued liability	12 735 000	11 959 000	11 290 000
Interest cost	1 310 000	1 229 000	1 158 000
Service cost	446 000	415 000	387 000

Medical aid inflation

The cost of the subsidy after retirement is dependent on the increase in the contributions to the medical aid scheme before and after retirement. The rate at which these contributions increase will thus have a direct effect on the liability of future retirees.

We have tested the effect of a 1% p.a change in the medical aid inflation. The effect is as follows:

	Medical aid inflation-minus 1%	Valuation Assumption	Medical aid inflation-plus 1%
Total accrued liability	11 606 000	11 959 000	12 230 000
Interest cost	1 192 000	1 229 000	1 257 000
Service cost	396 000	415 000	427 000

**Accrued liability at 30 June 2016**

Future - service cost

Interest cost

Expected benefits payments

Actuarial loss/ (gain)

Total annual expense

105	11 959 000	13 135 000
	415 000	424 000
	1 229 000	1 201 000
	-503 000	-478 000
	-	-
	<b>1 141 000</b>	<b>1 147 000</b>

**Projected accrued liability at 30 June 2017**

13 100 000 14 282 000

Total liability

Current portion of long term liability

Long term

(Note 18)

105	11 959 000	13 135 000
	-415 000	-424 000
	<b>11 544 000</b>	<b>12 711 000</b>

2016  
R

2015  
R

#### 20.2 Provision for long-service awards

Benchmark inflation (equal to salary inflation)

Withdrawal rate

Yield curve CPI + 1%	Yield curve CPI + 1%
Yield curve based	Yield curve based
Difference between	Difference between
nominal and yield	nominal and yield
curves	curves

	Withdrawal rate minus 20%	Valuation Assumption	Withdrawal rate plus 20%
Total accrued liability	4 773 000	4 477 000	4 185 000
Interest cost	586 000	520 000	462 000
Service cost	507 000	473 000	440 000

	Normal salary inflation-minus 1%	Valuation Assumption	Normal salary inflation-plus 1%
Total accrued liability	4 148 000	4 477 000	4 809 000
Interest cost	469 000	520 000	575 000
Service cost	437 000	473 000	510 000

106	4 477 000	4 008 000
	473 000	429 000
	520 000	375 000
	-446 000	-318 000
	-	-
	<u>547 000</u>	<u>486 000</u>

5 024 000	4 494 000
-----------	-----------

106	4 477 000	4 008 000
	-473 000	-429 000

4 004 000	3 579 000
-----------	-----------

<u>15 548 000</u>	<u>16 290 000</u>
-------------------	-------------------

1	4 424 698	4 068 044
2	6 706 482	6 765 486
3	-1 921 066	447 580

4	-	-
5	1 899 609	1 866 967
6	653 812	749 490
	6 706 482	6 765 486
	-49 789	1 899 167

9 210 114      11 281 110

**UMLALAZI MUNICIPALITY**  
Annual Financial Statements for the year ended 30 June 2016

	<b>2016</b>	<b>2015</b>
	<b>R</b>	<b>R</b>
<b>22. ACCUMULATED SURPLUS</b>		
<b>Accumulated surplus/ (deficit) at the beginning of the year</b>	680 236 416	640 238 982
Operating (deficit)/ surplus for the year	130 917 925	33 592 092
Funding of capital projects	6 827 047	5 949 648
Appropriations for the year :		
Prior year adjustments	-3 698 478	-10 194 566
Prior year error correction on assets - fair value adjustments		120 565
Prior year error correction on assets		-4 025 273
Prior year error correction on depreciation		14 554 967
<b>Accumulated surplus/ (deficit) before transfers to reserves</b>	<b>814 282 910</b>	<b>680 236 416</b>
Transfer to reserves:		
<b>Capital replacement reserve</b>		
<b>Balance at the beginning of the year</b>	22 532 735	18 547 900
Income	20 633 498	9 934 483
Transfer to MIG - MIG expenditure paid out of own funds	-	-2 881 985
Land sales contribution	470 000	30 000
Transfer of unspent capital equitable share grant funding	6 337 934	2 326 269
Interest received on investment	1 348 102	840 657
Contribution from operating account	12 477 463	9 619 542
Less: Expenditure	6 827 047	5 949 648
Funding of capital projects	6 827 047	5 949 648
<b>Balance at the end of the year</b>	<b>36 339 186</b>	<b>22 532 735</b>
The Council at its meeting held on 30 May 2013, approved a Funding and Reserve Policy.		
The Capital Replacement Reserve is fully funded and invested.		
<b>Accumulated surplus/ (deficit) at the end of the year</b>	<b>850 622 095</b>	<b>702 769 150</b>
<b>23. PROPERTY RATES</b>		
The last general valuation came into effect on:		
Eshowe	01 July 2015	01 July 2011
Mtunzini	01 July 2015	01 July 2011
Gingindhlovu	01 July 2015	01 July 2011
<b>Rate randages:</b>		
Residential	0.9341	1.24
Commercial and Industrial	1.1677	1.24
Vacant land	1.8683	1.24
Mining	1.1677	2.48
Government	1.1677	1.24
Municipal	0.2335	1.24
Clubs/ Churches	0.2335	1.24
Agricultural	0.2335	0.3089
Public service infrastructure	0.2335	0.3089

**UMLALAZI MUNICIPALITY**  
**Annual Financial Statements for the year ended 30 June 2016**

	<b>2016</b>	<b>2015</b>
	<b>R</b>	<b>R</b>
<b>PROPERTY RATES (CONTINUE)</b>		
<b>Rebates:</b>		
Municipal properties	100%	100%
Government properties	20%	20%
Pensioners	40%	40%
Residential properties with land values of R50 000 and less	100%	100%
Public Service Infrastructure	30%	30%
Industrial incentives		
All undeveloped serviced industrial sites where the industrial developer has provided the full range of Municipal services	100%	100%
Industrialists are granted incentive rebates on a phased reducing basis over five years		
<b>Actual</b>		
Commercial	9 205 053	6 230 371
Residential	20 815 318	26 022 895
Education and state	24 647 052	2 178 951
Agriculture	3 798 137	2 783 140
Municipal	1 952 709	3 139 478
Public benefit	151 733	1 100 666
Vacant land	6 021 147	
Mining	560 490	
Public Service Infrastructure	4 905 419	4 624 047
<b>Total property rates</b>	<b>72 057 058</b>	<b>46 079 548</b>
Less: Rebates	6792 25 681 482	13 140 313
<b>Total</b>	<b>46 375 576</b>	<b>32 939 235</b>
<b>Valuations</b>		
Commercial	710 143 000	523 743 500
Residential	2 403 704 000	2 123 379 750
Education and state	2 289 484 000	245 245 600
Agriculture	1 799 625 000	884 971 750
Municipal	161 641 000	118 524 700
Public benefit	76 928 000	55 490 000
Vacant land	278 378 000	
Mining	20 412 000	
Public Service Infrastructure	3 014 619 000	2 138 885 000
<b>Total property valuations</b>	<b>10 754 934 000</b>	<b>6 090 240 300</b>

**UMLALAZI MUNICIPALITY**  
Annual Financial Statements for the year ended 30 June 2016

**PROPERTY RATES (CONTINUE)**

In terms of the provisions of Section 32 (1)(b) of the Local Government: Municipal Property Rates Act (Act No. 6 of 2004), a valuation roll remains valid for that financial year or for one or more subsequent financial years as the municipality may decide, but in total not for more than four (4) financial years.

Messrs Umhlaba Geomatics Incorporated compiled the valuation roll which was implemented on 01 July 2015.

**24. GOVERNMENT GRANTS AND SUBSIDIES**

Equitable share grant  
Department of Co-operative Governance and Traditional Affairs  
Department of Minerals and Energy  
Provincial administration

	2016	2015
	R	R
70	119 853 530	102 938 810
71	7 525 189	4 437 473
114	4 079 441	8 195 450
73	4 102 011	4 851 578
	<b>135 560 171</b>	<b>120 423 311</b>

**24.1 Equitable share grant**

Balance at the beginning of the year  
Equitable share grant allocation for the reporting year  
Transferred to revenue  
Transferred to capital funding  
Unspent operating equitable share allocations in 2016  
Unspent capital equitable share funding in 2016  
Transfer to Capital Replacement Reserve  
Balance at the end of the year

(Note 22)

-	-
-145 537 000	-110 939 000
119 853 530	102 938 810
25 683 470	8 000 190
-2 246 649	-1 672 188
-6 337 934	-2 326 269
8 584 583	3 998 457
<b>-</b>	<b>-</b>

**24.2 Department of Co-operative Governance and Traditional Affairs**

Balance at the beginning of the year  
Current year receipts  
Conditions met - transferred to revenue  
Conditions still to be met - transferred to liabilities

(Note 16)

-	-
12 600 000	-
-7 097 378	-
<b>5 502 622</b>	<b>-</b>

**24.3 Department of Minerals and Energy**

Balance at the beginning of the year  
Current year receipts  
Conditions met - transferred to revenue  
Returned to National Treasury  
Conditions still to be met - transferred to liabilities

(Note 16)

6 294 129	7 489 579
8 000 000	7 000 000
-4 079 440	8 195 450
-863 000	-
<b>9 351 689</b>	<b>6 294 129</b>

**24.4 Department of Arts and Culture**

Balance at the beginning of the year  
Current year receipts  
Conditions met - transferred to revenue  
Conditions still to be met - transferred to liabilities

(Note 16)

140 770	186 078
361 000	252 000
-350 524	-297 308
<b>151 246</b>	<b>140 770</b>

**24.5 Department of Sport and Recreation**

Balance at the beginning of the year  
Current year receipts  
Conditions met - transferred to revenue  
Conditions still to be met - transferred to liabilities

(Note 16)

953 519	525 000
-	1 875 000
-953 519	-1 446 481
<b>-</b>	<b>953 519</b>

**24.6 Department of Human Settlements**

Balance at the beginning of the year  
Current year receipts  
Conditions met - transferred to revenue  
Conditions still to be met - transferred to liabilities

(Note 16)

393 972	1 540 730
-	240 000
-	-1 386 758
<b>393 972</b>	<b>393 972</b>

**24.7 National Treasury**

**Municipal Systems Improvement Grant**

Balance at the beginning of the year  
Current year receipts  
Conditions met - transferred to revenue  
Returned to National Treasury  
Conditions still to be met - transferred to liabilities

(Note 16)

490 611	-
930 000	934 000
-930 000	-443 389
-490 611	-
<b>-</b>	<b>490 611</b>

**Municipal Infrastructure Grant**

Balance at the beginning of the year  
Current year receipts  
Conditions met - transferred to revenue  
Returned to National Treasury  
Conditions still to be met - transferred to liabilities

(Note 16)

3 764 893	5 761 073
39 090 000	37 496 000
-40 702 416	-39 492 180
-810 000	-
<b>1 342 477</b>	<b>3 764 893</b>

**Finance Management Grant**

Balance at the beginning of the year  
Current year receipts  
Conditions met - transferred to revenue  
Returned to National Treasury  
Conditions still to be met - transferred to liabilities

(Note 16)

61 241	-
1 600 000	1 600 000
-1 600 000	-1 538 759
-61 241	-
<b>-</b>	<b>61 241</b>

**Extended Public Works Programme Integrated Grant**

Balance at the beginning of the year  
Current year receipts  
Conditions met - transferred to revenue  
Conditions still to be met - transferred to liabilities

(Note 16)

-	-
3 037 000	2 172 000
-2 633 159	-2 172 000
<b>403 841</b>	<b>-</b>

**UMLALAZI MUNICIPALITY**  
**Annual Financial Statements for the year ended 30 June 2016**

	<u>2016</u>	<u>2015</u>
	R	R
<b>25. PUBLIC CONTRIBUTIONS, DONATED AND CONTRIBUTED PPE</b>		
<b>Donated assets</b>		
<b>For the year ended 30 June 2015:</b>		
The Eshowe Taxi Rank Trading Centre was a project initiated by the KZN Department of Economic Development and Tourism. The amount of R7 526 070 was paid by the Department to the contractor. The project was completed in the 2014/2015 financial year and the project has been handed over for full responsibility of the facility to the municipality.		7 526 070
<b>For the year ended 30 June 2016:</b>		
1) The Biyela Community Service Centre in Ward 6 was a project initiated by the Department of Co-Operative Governance and Traditional Affairs. A total amount of R6 821 431 (Excl VAT) was paid by the Department to the consultant and the contractor. The project was completed in the 2015/2016 financial year and the centre has been handed over for full responsibility to the municipality.	6 821 431	
2) The KwaZulu-Natal Department of Arts and Culture refurbished the Mtunzini Library. A total amount of R281 990 (Excl VAT) was paid by the Department. The refurbishment was completed in the 2015/2016 financial year.	281 990	
3) The municipality and ten (10) Traditional Authorities have signed memorandums of partnership for administration, use and maintenance of ninety one (91) rural facilities (halls, peace centres, crèches and sports fields). A service provider (Pricewaterhouse Coopers) has valued the rural facilities and brought them into the municipality's fixed asset register as donated assets.		
	86 783 142	
	<b>93 886 563</b>	<b>7 526 070</b>
<b>26. SERVICE CHARGES</b>		
Sale of electricity	11 56 548 897	52 894 658
Refuse removal	20 11 078 079	10 220 342
	<b>67 626 976</b>	<b>63 115 000</b>
The service charges revenue are in respect of services rendered to consumers and billed in terms of the Council's approved tariffs.		
<b>27. RENTAL OF FACILITIES AND EQUIPMENT</b>		
Included in the rental of facilities are the following:		
Community halls/ Eshowe Sports Club	5410 112 059	143 418
Sugar cane leases	5190 788 694	792 683
Staff houses	5465 87 836	83 584
Other rentals	5200 167 319	179 598
	<b>1 155 907</b>	<b>1 199 282</b>
<b>28. INTEREST EARNED</b>		
Current account	5310 271 158	198 216
Short-term investment deposits	9954 6 195 742	3 947 354
	<b>6 466 900</b>	<b>4 145 570</b>
<b>29. LICENCES AND PERMITS</b>		
Trade licences	5260 49 083	13 478
Testing station fees	5270 1 965 395	1 959 329
Registration of vehicles	5280 1 398 334	1 333 440
Rank permits	5520 6 502	3 474
	<b>3 419 316</b>	<b>3 309 720</b>



**UMLALAZI MUNICIPALITY**  
**Annual Financial Statements for the year ended 30 June 2016**

	<u>2016</u>	<u>2015</u>
	R	R
<b>30. OTHER INCOME</b>		
Included in the other income are the following:		
Building plan fees	5210	330 262
Burial fees	5005	183 047
Caravan park entrance fees	402	3 536
Commission on stop orders	5080	36 002
Electricity connection fees	5220	255 792
Encroachment fees	5300	45 509
Garden refuse removal	5205	74 002
Housing administration fees and Insurance	5450	58 280
Photocopying	5265	328 845
Pre paid electricity sales administration fees	5555	-
Profit on E-card sales	5045	8 427
Rates clearance certificates	5070	69 268
SETA refund on staff training costs	5420	134 800
Swimming pool fees	404	17 739
Sundry	5075	829 319
Town planning	5275	150 994
Use of refuse transfer station	5207	39 272
	<u><u>2 565 093</u></u>	<u><u>2 551 039</u></u>
<b>31. GAIN/ (LOSS) ON SALE OF ASSETS</b>		
Property, plant and equipment	5293	911 450
	<u><u>911 450</u></u>	<u><u>30 000</u></u>
<b>32. EMPLOYEE RELATED COSTS</b>		
<b>32.1 REMUNERATION OF KEY MANAGEMENT PERSONNEL:</b>		
<b>Remuneration of the Municipal Manager</b>		
Annual remuneration	1 145 271	1 097 434
Performance bonus	-	65 186
Travel allowance	180 000	180 000
Contributions to UIF, Medical and Pension Funds	1 784	1 784
Group life	22 905	21 949
	<u><u>1 349 960</u></u>	<u><u>1 366 353</u></u>

**UMLALAZI MUNICIPALITY**  
Annual Financial Statements for the year ended 30 June 2016

**32.1 REMUNERATION OF KEY MANAGEMENT PERSONNEL (CONTINUE):**

**Remuneration of the Chief Financial Officer**

	2016 R	2015 R
Annual remuneration	711 402	681 696
Performance bonus	86 577	45 898
Travel allowance	126 000	126 000
Contributions to UIF, Medical and Pension Funds	1 784	1 784
Group life	14 228	13 633
	<b>939 991</b>	<b>869 011</b>

**Remuneration of the Director: Corporate Services**

Annual remuneration	749 238	717 756
Performance bonus	123 412	42 060
Travel allowance	120 000	120 000
Contributions to UIF, Medical and Pension Funds	1 784	1 784
Group life		
	<b>994 434</b>	<b>881 600</b>

**Remuneration of the Director: Protection Services**

The position of the Director: Protection Services, is vacant since 01 January 2013.

**Remuneration of the Director: Community Services**

Annual remuneration	725 578	694 084
Performance bonus	79 367	42 060
Travel allowance	144 000	144 000
Contributions to UIF, Medical and Pension Funds	1 784	1 784
Group life		
	<b>950 729</b>	<b>881 928</b>

**Remuneration of the Director: Engineering Services**

(Resigned on 31 May 2016)

Annual remuneration	650 909	680 153
Performance bonus	79 336	42 076
Travel allowance	132 000	144 000
Contributions to UIF, Medical and Pension Funds	1 784	1 784
Group life	13 017	13 603
	<b>877 046</b>	<b>881 616</b>

**32.2 EMPLOYEE RELATED COSTS**

Salaries and allowances	80 54 513 923	43 897 659
Contributions to UIF, group life, pensions and medical aid	81 13 866 040	11 035 896
Travel, motor car, accommodation, subsistence and other allowances	82 4 865 223	3 554 954
Housing benefits and allowances	83 194 862	116 404
Overtime payments	84 3 698 574	3 330 172
Protective clothing	87 383 972	381 204
Workmen's compensation	88 593 196	548 241
Skills development levy	102 794 065	531 209
	<b>78 909 855</b>	<b>63 395 738</b>

**UMLALAZI MUNICIPALITY**  
**Annual Financial Statements for the year ended 30 June 2016**

**33. REMUNERATION OF COUNCILLORS**

Mayor's allowance  
Deputy mayor's allowance  
Speaker's allowance  
Chief whip's allowance  
Executive committee members' allowances  
Councillors' allowances  
Councillors' pension and medical aid contributions

	2016	2015
	R	R
13	782 480	742 963
	630 878	598 031
	630 878	599 264
	592 978	526 616
	4 340 837	3 510 103
	9 464 734	9 091 323
	999 754	852 849
	<b>17 442 539</b>	<b>15 921 150</b>

The Mayor, Deputy Mayor, Speaker and Chief whip are full time councillors, and have offices and secretarial support at the cost of the Council.  
The Mayor, Deputy Mayor and Speaker has the use of Council purchased vehicles for official duties.  
The Executive Committee members are full time councillors, and has no offices and secretarial support.

Security (body guards) are provided, at the cost of Council, to office bearers as follows:  
Mayor 9 (2 body guards and 7 security guards at residences)  
Deputy mayor 3  
Speaker 3  
Chief whip 3  
Councillors (11) 13

**34. DEPRECIATION AND IMPAIRMENT LOSS**

Depreciation: Property, plant and equipment  
Impairment loss on property, plant and equipment  
Depreciation: Intangible assets

35 801 144	32 166 564
3 972 483	1 904 084
216 703	129 398
<b>39 990 330</b>	<b>34 200 045</b>

**35. REPAIRS AND MAINTENANCE**

Buildings  
Electricity mains  
LV & HV Upgrading  
Electricity sub stations  
Fuel and oil  
Furniture and equipment  
Grounds (Parks and gardens, Cemeteries, Refuse transfer site)  
Grounds (Recreation grounds)  
Office equipment  
Roads and streets  
Small plant and equipment  
Speed testing equipment  
Street lights  
Traffic signs  
Transport  
Maintenance: Air conditioners  
Maintenance: Swimming pools  
Maintenance: Rural grounds  
Maintenance: Rural roads

6930	920 527	337 968
7050	614 331	337 318
7102	669 574	749 504
7010	20 383	37 067
7180	3 180 738	3 023 143
6950	110 874	140 909
6960	284 976	45 270
6970	-	13 453
6900	20 096	290 398
6910	2 239 031	1 720 019
7021	256 545	142 984
7120	9 637	9 397
7100	423 644	300 007
7110	24 950	7 381
7020	2 597 829	1 309 216
6951	53 654	7 596
7000	65	-
9914	261 617	-
7152	9 643 803	8 991 133
	<b>21 332 274</b>	<b>17 462 762</b>

**UMLALAZI MUNICIPALITY**  
**Annual Financial Statements for the year ended 30 June 2016**

	<b>2016</b>	<b>2015</b>
	<b>R</b>	<b>R</b>
<b>36. FINANCE COSTS</b>		
Loans payable	64 576 525	617 534
Bank overdraft	65 -	-
Total finance costs	<b>576 525</b>	<b>617 534</b>
<b>37. BULK PURCHASES</b>		
Electricity	75 43 727 155	39 424 565
Bulk purchases are the cost of commodities not generated by the municipality, but which the municipality distributes to consumers. The municipality purchases electricity in bulk from Eskom and then redistributes it to consumers.		
<b>38. CONTRACTED SERVICES</b>		
<b>Contracted services for:</b>		
Animal pound	7871 590 952	615 841
Archive storage	7856 80 945	38 334
Asset management	7877 721 489	873 901
Bank collections	7775 265 692	210 270
Cleaning : Bus rank	7830 672 260	640 248
Cleaning Contracts	7770 -	161 095
Computer maintenance	7845 1 517 477	888 710
Design and project management - Mayor's parlour	7884 199 679	
Fleet management	7882 576 000	
Formalize informal settlement plan	7880 162 000	
Grass cutting	9908 1 448 227	1 457 740
ICT Governance service	7885 554 703	
Insurance	7850 743 914	541 688
Internal audit	7760 1 507 412	1 000 336
Land use management system	7875 -	217 750
Lease: Propnet properties	7795 114 566	257 908
Lease: Radio repeater site	7873 7 588	3 947
Lease: Toilet facilities - Testing Station	7874 19 199	23 024
Lease: Weigh bridge	7857 451 425	335 000
Mailing: Monthly consumer accounts	7872 200 282	212 151
Management system: Pre paid electricity	7840 802 195	214 477
mSCOA Implementation	7889 120 021	
Pauper burials	7820 -	6 120
Post employment report	7860 17 492	8 763
Pre paid electricity commission	7859 106 382	583 244
Refuse removal	7835 3 708 317	3 850 126
Rental of office equipment	7855 713 085	608 132
Re-valuation of properties	7876 438	1 056 719
Review pavement management system	7883 313 500	
Security: Office bearers and Council buildings	7800 9 377 578	7 759 790
Security: Sport fields	9909 359 531	269 659
Town planning	7780 471	128 382
Traffic violation system	7805 2 642 573	2 339 854
Valuation costs: Monthly maintenance	7785 215 438	300 000
	<b>28 210 831</b>	<b>24 603 209</b>

**UMLALAZI MUNICIPALITY**  
Annual Financial Statements for the year ended 30 June 2016

		2016	2015
		R	R
<b>39. EMPLOYEE BENEFITS</b>			
Post retirement medical benefits		6100 -	971 873
Long-service awards		6101 737 287	897 450
Performance bonuses		6102 352 048	664 390
Employee bonuses		6103 2 605 589	2 075 447
		<b>3 694 924</b>	<b>4 609 160</b>
<b>40. GENERAL EXPENSES</b>			
Advertising		6120 610 412	605 629
Audit fees	(Note 48.2)	6150 1 424 588	1 933 418
Bank charges		9901 301 268	285 733
Bargaining Council levies		9910 29 776	23 730
Bursaries		9902 112 330	72 223
Cash handling fee: Easy pay		6852 39 882	28 614
Chemicals		6180 39 711	28 457
Civic expenses		6190 218 829	121 182
Cleaning materials		9903 148 439	109 339
Conference and delegations		6230 52 051	60 531
Contribution to Capital Replacement Reserve	(Note 22)	7415 12 947 463	9 649 542
Council's communication (Annual report, IDP and Quarterly newspaper)		9904 143 850	205 978
Electricity: Other accounts		6311 469 190	407 998
Employee assistance programme		6621 232 384	
Employee medical examinations		6724 215 800	
Entertainment allowances		6335 131 444	93 621
Finance Management Grant		9905 1 044 149	1 190 419
Furniture removal cost: New staff		6711 29 965	-
Government grants expenditure	(Note 40.1)	29 694 225	27 256 854
Grants and subsidies paid	(Note 52)	3 865 495	3 398 121
Housing transfers		6405 390 000	
IDP Roadshows		6763 208 445	
First aid kits		6350 36 185	
Fruitless and wasteful expenditure	(Note 49.3)	6441 9 158	51 607
Infectious diseases and X - rays		-	9 600
Internship programme		6595 81 285	
Legal expenses		6470 2 485 683	1 424 255
Library: Purchasing of new books		6490 15 435	16 252
License fees		6630 37 079	35 334
Loose Tools		6500 26 461	28 960
Membership fees (SALGA)	(Note 48.1)	6730 853 042	590 731
Postage		6590 43 586	49 090
Printing and stationary		6600 512 498	483 093
Communication		6620 1 193 922	360 829
Recycling awareness programmes		6785 13 714	
Refuse bin liners		6650 625 101	675 209
Removal of informal settlements		6606 70 900	146 667
Rental of buildings		6431 45 411	38 924
Road marking		6540 143 718	28 416
SABS: 3% charge		6680 11 416	12 687
Subscriptions		9912 55 123	18 347
Subsistence and travel: Staff		405 1 368 755	902 280
Subsistence and travel: Councillors		406 734 371	598 230
Telephone costs		6750 1 175 909	936 645
Town planning		6760 156 542	
Traditional leaders		6756 48 000	48 000
Trees and shrubs		6780 6 271	15 698
Traffic: Ammunition and training		6130 21 603	925
Training		6710 823 918	464 778
Ward committees		9916 1 091 975	754 597
Water and sanitation costs		6850 1 205 156	951 593
Website		6860 22 009	
Weed eradication		6840 474 502	434 497
Other		9917 5 208	4 598
		<b>65 743 632</b>	<b>54 553 230</b>

**UMLALAZI MUNICIPALITY**  
Annual Financial Statements for the year ended 30 June 2016

	<u>2016</u>	<u>2015</u>
	R	R
<b>40. GENERAL EXPENSES (CONTINUE)</b>		
<b>40.1 Additional information for Government Grants expenditure:</b>		
Caretaking of rural buildings	9920 45 261	-
Cyber cadet: Libraries	9921 350 334	297 308
Municipal Systems Improvement Grant	9922 686 602	484 365
Youth development	9924 1 122 961	708 292
Community support programme	9925 783 995	575 193
Local economic development	9926 3 481 224	1 595 766
Ceremonial events	9927 79 886	83 724
Commemorative celebrations	9928 174 079	94 721
Poverty alleviation	9929 2 797 887	2 577 236
Youth business advisory centre	9930 185 741	155 047
Rural fire prevention	9931 133 336	84 969
Disaster assistance	9932 359 791	646 700
Humanitarian assistance	9933 950 160	665 525
Sport development	9934 2 252 444	974 436
Cultural development	9935 600 005	119 018
Local aids council	9936 484 716	317 211
Special programmes	9937 607 489	345 981
Operation Sukuma Sakhe	9938 205 157	36 090
Maintenance of rural facilities	9939 141 495	87 512
Work creation projects	9940 1 798 502	1 325 829
Project management unit administration costs	9941 1 113 171	640 410
Extended Public Works Programme	9942 2 622 758	2 159 280
Gingindlovu housing project	9944 2 412 976	500 730
Sunnydale housing project	9945 -	597 000
Integrated electricity programme	9947 3 593 189	7 210 638
Upgrade of Eskom sub-station		4 971 766
Electricity meter audit	9949 102 315	2 105
Disaster management	9950 1 365 551	
Support to community centre	9951 1 523	
Land use management system	9952 1 164 490	
Councillor's funeral assistance	9953 77 186	
	<u>29 694 225</u>	<u>27 256 854</u>

**UMLALAZI MUNICIPALITY**  
Annual Financial Statements for the year ended 30 June 2016

		<u>2016</u>	<u>2015</u>
		R	R
<b>41. ACCRUED STAFF LEAVE</b>			
Balance at the beginning of the year		3 328 150	3 181 087
Contributions to provision	7400	<b>2 563 645</b>	<b>1 460 420</b>
Commuting of staff leave against provision		1 339 750	1 313 357
<b>Balance at the end of the year</b>	(Note 15)	<b>287 4 552 044</b>	<b>3 328 150</b>
<b>42. FAIR VALUE ADJUSTMENT</b>			
Fair value adjustment for investment properties	(Note 11)	-	5 102 198
Fair value adjustment on heritage assets	(Note 12)	10 309 933	
		<b>10 309 933</b>	<b>5 102 198</b>
<b>43. CASH GENERATED BY OPERATIONS</b>			
Surplus/ (deficit) for the year		128 549 279	33 673 551
Adjustments for:-			
Previous year's operating transactions		-3 698 478	-10 194 566
Depreciation		39 990 330	34 200 045
Donated assets		-93 886 563	-7 526 070
Actuarial gains		-737 696	
Contribution to the Capital Replacement Reserve		20 633 498	3 855 572
(Gain)/ loss on sale of assets		-911 450	-30 000
Fair value adjustment		-10 309 933	-5 102 198
Public contributions		-62 523	-71 454
Non-cash flow movement		-96 183	-630 985
Contributions to provisions (non-current)			
Employee benefits		3 694 924	4 609 160
Contributions to provisions (current)			
Staff leave		2 563 645	1 460 420
Non-operating expenditure			
Expenditure for leave		-1 339 750	-1 313 357
Expenditure for long service awards		-521 000	-424 550
Expenditure for post retirement medical benefits		-441 606	-418 854
<b>Operating surplus before working capital changes:</b>		<b>83 426 495</b>	<b>52 086 714</b>
(Increase)/ decrease in inventory		-284 823	1 139 717
(Increase)/ decrease in receivables from exchange transactions		187 417	10 383 638
(Increase)/ decrease in receivables from non-exchange transactions		-5 099 454	1 594 633
(Increase)/ decrease in VAT receivable		-7 453 126	-3 513 463
(Increase)/ decrease in deposits with creditors		-49 001	-19 000
Increase/ (decrease) in VAT payable		-808 020	846 218
Increase/ (decrease) in unspent conditional grants and receipts		5 148 084	-3 224 309
Increase/ (decrease) in payables from exchange transactions		25 148 088	1 800 167
Increase/ (decrease) in employee benefits		473 082	990 421
Increase/ (decrease) in provisions		175 195	4 445 338
		<b>17 437 440</b>	<b>14 443 358</b>
<b>Net cash flow from operating activities</b>		<b>100 863 934</b>	<b>66 530 072</b>

**UMLALAZI MUNICIPALITY**  
Annual Financial Statements for the year ended 30 June 2016

	2016 R	2015 R
<b>44. INCREASE/ (DECREASE) IN LONG TERM LOANS (EXTERNAL)</b>		
Loans raised	-	-
Loans repaid	-342 816	-342 816
	<b>-342 816</b>	<b>-342 816</b>
<b>45. INCREASE/ (DECREASE) IN CASH ON HAND</b>		
Cash balance at the beginning of the year	79 034 476	71 508 272
LESS : Cash balance at the end of the year	112 438 562	79 034 476
	<b>33 404 086</b>	<b>7 526 204</b>
<b>46. RETIREMENT BENEFITS</b>		
The municipality's personnel are members of one of the three Natal Joint Municipal Pension Funds i.e. (Superannuation, Provident and Retirement). The valuator carries out a statutory valuation on a tri-annual basis and an interim valuation on an annual basis.		
The following valuations have been carried out:		
Superannuation fund	Interim	Annual basis
Provident fund	Statutory	Tri-annual basis
Retirement fund	Statutory	Tri-annual basis
<b>46.1 Superannuation</b>		
An Interim Actuarial Valuation of the fund was carried out for the period ending 31 March 2015 (31/03/2014). The actuarial value of total assets was more (less) than the actuarial value of liabilities for the service of pensioners and for members to that date, made up as follows:		
	-	-
<b>For service to 31 March 2015</b>		
<b>Pensioners</b>		
<b>Assets:</b>	4 814 734 000	4 005 403 000
<b>Liabilities:</b>	4 814 734 000	4 005 403 000
Funding level 128.5%		
(2014: Funding level 132.9%)		
<b>Members</b>		
<b>Assets:</b>	5 298 493 000	4 505 433 000
<b>Liabilities:</b>	5 298 493 000	4 505 433 000
Funding level 100.8%		
(2014: Funding level 100%)		
<b>Total fund:</b>		
<b>Total assets:</b>	<b>10 113 227 000</b>	<b>8 510 836 000</b>
<b>Total liabilities:</b>	<b>10 113 227 000</b>	<b>8 510 836 000</b>



**UMLALAZI MUNICIPALITY**  
**Annual Financial Statements for the year ended 30 June 2016**

	<b>2016</b>	<b>2015</b>
	<b>R</b>	<b>R</b>
<b>RETIREMENT BENEFITS (CONTINUE)</b>		
The fund held an Investment Reserve of:		
Contribution reserve	64 229 000	413 018 000 59 871 000
<b>Conclusion</b>		
1. The valuation reveals that the total Fund is 100% funded as at the valuation date at the overall level. The pensioner liabilities are fully funded and the liabilities in respect of active members are 100% funded.		
2. The surcharge of 9.5% will continue to be paid for 8 years in terms of the "Scheme to Eliminate Deficiency", which was implemented from 1 August 2012, to eliminate the shortfall and then to build up sufficient solvency reserves.		
3. It is necessary to retain the Contribution Reserve to hold assets equal to the expected shortfall, which was 0.75% of pensionable salaries at the valuation date.		
<b>46.2 Provident Fund</b>		
The salient features of the Statutory Actuarial Valuation Report on the fund as at 31 March 2015 (31/03/2012) were that the net market value of the fund's assets were not sufficient to fully cover the members' share account and to provide total reserves of	2 453 607 000	1 255 238 000
The liabilities of the fund did not exceed the assets, resulting in a small surplus (or unallocated assets) of	182 457 000	33 053 000
which represents 7.4% of liabilities and reserves.		
The bonuses declared subsequent to the valuation date have been greater than the investment earnings over that period, and the shortfall has been met from the unallocated assets.		
<b>Conclusion</b>		
1) The actuary do not recommend that any final bonus be declared at the valuation date.		
2) The Fund self-insures its death benefits and disability benefits.		
3) The actuary is satisfied that the asset composition on the valuation date is appropriate.		
4) Members are able to choose a rate of contribution between 5% and 9.25% of of pensionable salaries.		
<b>46.3 Retirement Fund</b>		
The salient features of the Statutory Actuarial Valuation Report on the fund as at 31 March 2015 were:		
The actuarial value of total assets of the fund was less than the actuarial value of the liabilities for the service of pensioners and members to that date by:	-148 694 000	-251 501 000
<b>Made up as follows:</b>		
<b>For service to 31 March 2015</b>		
for pensioners - funding level 120.6% (2012 : funding level 115.3%)	-	-
for members - funding level 91.1% (2012 : funding level 82.0%) - deficit	-148 694 000	-251 501 000
The fund did not hold an investment reserve.		

2016	2015
R	R
15.85%	15.35%
1.65%	1.65%

With effect from 01 July 2000, local authorities commenced paying a surcharge equal to 2% of pensionable salaries. It was subsequently increased each year and is currently (31/03/2012), local authorities and members pay

## Conclusion

- 1) The Fund is 96.1% funded as at the valuation date (2012 - 90.6%) at the overall level. The pensioner liabilities are fully funded and the liabilities in respect of active members are 91.1% funded. The financial position of Fund has thus improved since the previous valuation date.
- 2) The actuary recommend that the surcharge continue to be paid in terms of the "Scheme to Eliminate Deficiency" to firstly eliminate the short fall and then build up sufficient solvency reserves.
- 3) The Fund self-insures its risks benefits.

**36.4 Municipal Councillors' Pension Fund**

The Municipal Councillors' Pension Fund operates as a defined contribution fund. The contributions paid by the members (13.75%) and council (15%) is sufficient to fund the benefits accruing from the fund in the future. The last valuation performed for the year ended 30 June 2012 revealed that the fund had an funding level of 99.5% (2009 - 102.0%), and is in a sound financial state as at 30 June 2012.

#### 47.1 Commitments in respect of capital expenditure

Approved and  
Infrastructure  
Community  
Other

Approved and  
Infrastructure  
Community  
Other

**This expenditure will be financed from:**

Own resources  
Government grants

<b>41 244 731</b>	<b>9 917 442</b>
31 976 582	5 774 034
8 922 813	2 969 366
345 335	1 174 043
<b>10 563 381</b>	<b>11 049 811</b>
4 646 235	1 251 923
1 873 099	2 861 968
4 044 047	6 935 920
<b>51 808 111</b>	<b>20 967 254</b>
11 518 236	8 109 963
40 289 875	12 857 291
<b>51 808 111</b>	<b>20 967 254</b>

**UMLALAZI MUNICIPALITY**  
**Annual Financial Statements for the year ended 30 June 2016**

	<u>2016</u>	<u>2015</u>
	R	R
<b>CAPITAL COMMITMENTS (CONTINUE)</b>		
<b>47.2 Operating leases</b>		
Council has concluded operating lease agreements with suppliers which are required to be paid in instalments as follows:		
In the year ending 30 June 2016		1 003 022
In the year ending 30 June 2017	1 185 744	
In the year ending 30 June 2018	335 731	
<b>Total</b>	<u><u>1 521 475</u></u>	<u><u>1 003 022</u></u>
<b>47.3 Finance lease liability</b>		
Council has not concluded any finance lease agreements with suppliers.		
<b>48. ADDITIONAL DISCLOSURES IN TERMS OF THE MUNICIPAL FINANCE MANAGEMENT ACT</b>		
<b>48.1 Contributions to organised local government</b>		
<b>South African Local Government Association (SALGA)</b>		
Opening balance	-	-
Council subscriptions:	101 853 042	590 731
Bargaining council	103 29 776	23 730
Amount paid - current year	-882 817	-614 461
<b>Balance unpaid (included in payables)</b>	<u><u>-</u></u>	<u><u>-</u></u>
<b>48.2 Audit fees</b>		
Opening balance	-	-
Current year audit fees	1 424 569	2 185 055
Amount paid - current year	-1 424 569	-2 185 055
<b>Balance unpaid (included in payables)</b>	<u><u>-</u></u>	<u><u>-</u></u>
<b>48.3 Value added tax</b>		
VAT Receivable (Note 3)	14 479 582	7 026 456
VAT Payable (Note 15)	776 936	1 584 956
VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors.		
<b>48.4 PAYE and UIF</b>		
Opening balance	-	-
Current year payroll deductions	12 465 734	9 901 598
Amount paid - current year	-12 465 734	-9 901 598
<b>Balance unpaid (included in payables)</b>	<u><u>-</u></u>	<u><u>-</u></u>

**UMLALAZI MUNICIPALITY**  
Annual Financial Statements for the year ended 30 June 2016

	2016 R	2015 R
<b>ADDITIONAL DISCLOSURES IN TERMS OF THE MUNICIPAL FINANCE MANAGEMENT ACT (CONTINUE)</b>		
<b>48.5 Pension and Medical Aid Deductions</b>		
Opening balance	-	-
Current year payroll deductions and Council contributions	18 817 715	15 288 754
Amount paid - current year	-18 817 715	-15 288 754
<b>Balance unpaid (included in payables)</b>	<b>-</b>	<b>-</b>

**48.6 Councillor's arrear consumer accounts**

The following Councillors had arrear accounts outstanding as at 30 June for more than 90 days:

	<u>Total</u>	<u>Outstanding less than 90 days</u>	<u>Outstanding more than 90 days</u>
<b>For the year ended 30 June 2016</b>			
B I & R P Thusi	10 502	-	10 502

**For the year ended 30 June 2015**

	<u>Total</u>	<u>Outstanding less than 90 days</u>	<u>Outstanding more than 90 days</u>
None	-		

The amount of R10 502 is for damage caused to electricity infrastructure. Initially there was a dispute for the damage. An agreement was reached where the arrears are now settled in monthly instalments.

**49. UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL**

**EXPENDITURE**

**49.1 Unauthorised expenditure**

**Opening balance**

24 163 627      27 613 860

**For the year ended 30 June 2015:**

A large portion of the amount was approved as valid expenditure by the Executive Committee at its meeting held on 02 October 2014.

**(Exco Min No. 101/14/15)**

-17 629 038

2012/2013 Financial Year. Amount approved as valid expenditure by the Executive Committee at its meeting held on 16 October 2014.

**(Exco Min No. 104/14/15)**

-22 853

In terms of Section 15 of the Municipal Finance Management Act, the following amounts were in excess of the budgeted amount as per respective line votes:

**Operating:**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Executive and Council	78 165 990	90 160 643	11 994 653
Public safety	42 490 180	44 669 608	2 179 428
Sport and Recreation	10 519 850	10 525 642	5 792
Workshop	463 200	484 985	21 785
			14 201 658

**Explanations of variances:**

Executive and Council : Additional depreciation calculated on the Council's assets caused the over expenditure.  
Public safety : Increase allowance for doubtful debts due to increased traffic fines issued during the year.  
Sport and Recreation : Increased spending on fuel and oil in the Parks and Gardens section caused the over expenditure.  
Workshop : Excessive decreasing of salary lines during the adjustments budget, caused the over expenditure.

**For the year ended 30 June 2016:**

A large portion of the amount was approved as valid expenditure by the Executive Committee at its meeting held on 09 October 2015.

**(Exco Min No. 121/15/16)**

-14 197 513

2013/2014 Financial Year. Amount approved as valid expenditure by the Executive Committee at its meeting held on 09 October 2015.

**(Exco Min No. 122/15/16)**

-9 961 969

**UMLALAZI MUNICIPALITY**  
**Annual Financial Statements for the year ended 30 June 2016**

				<u>2016</u>	<u>2015</u>
				R	R
<b>Unauthorised expenditure (continue)</b>					
In terms of Section 15 of the Municipal Finance Management Act, the following amounts were in excess of the budgeted amount as per respective line votes:					
<b><u>Operating:</u></b>	<b><u>Budget</u></b>	<b><u>Actual</u></b>	<b><u>Variance</u></b>		
Executive and Council	101 208 580	110 071 988	8 863 408	8 863 408	
 <b><u>Explanations of variance:</u></b>					
Executive and Council : Additional impairment losses calculated on the Council's assets and allowance for doubtful debts caused the over expenditure.					
<b><u>Capital:</u></b>	<b><u>Budget</u></b>	<b><u>Actual</u></b>	<b><u>Variance</u></b>		
Public safety	860 000	3 141 477	2 281 477	2 281 477	
 <b><u>Explanations of variance:</u></b>					
A grant was received from the Department of Co-operative Governance and Traditional Affairs for the re-furbishment of the Gingindlovu fire station. The expenditure for the project was erroneously paid from the operating budget. At year-end the error was rectified, and the expenditure was transferred to capital where no budget was provided.					
<b>Closing balance</b>				<b><u>11 149 030</u></b>	<b><u>24 163 627</u></b>
Refer Appendix D(1)					
<b><u>49.2 Irregular expenditure</u></b>					
<b>Opening balance</b>				30 708 679	26 280 440
<b>For the year ended 30 June 2015:</b>					
Non-compliance with Section 18(a) of the SCM Policy - not advertised for 7 days					221 689
Non-compliance with MFMA Circular No. 62 - variation of goods and services exceeds 15%					23 500
Procuring goods and services without following the correct procurement process					1 071 812
Non-compliance with Section 12(5) of the SCM Policy - not obtaining three written quotations					3 111 238
<b>For the year ended 30 June 2016:</b>					
Procuring goods and services without following the correct procurement process				345 352	
Non-compliance with Section 12(1) of the SCM Policy - payments exceeding threshold of petty cash				95 100	
Non-compliance with Section 12(3) of the SCM Policy - amounts deliberately split to avoid complying with requirements of the policy				2 700	
Letter submitted to National Treasury on 31 August 2016 for condonation of irregular expenditure				-30 708 679	
<b>Closing balance</b>				<b><u>443 152</u></b>	<b><u>30 708 679</u></b>

**UMLALAZI MUNICIPALITY**  
**Annual Financial Statements for the year ended 30 June 2016**

**49.3 Fruitless and wasteful expenditure**

**Opening balance**

**For the year ended 30 June 2015:**

Moveable assets of handed over debtor incorrectly sold at a public auction

After hour service fee for accommodation - Grindrod Travel

Administration fees for traffic fines while driving a hired vehicle - Grindrod Travel

Arbitration set down for hearing. No one was present for or on behalf of respondent (Municipality) - S A L G B C

Arbitration set down for hearing. Postponed at arbitration. Respondent ordered to pay the costs of the day - S A L G B C (01/06/2015)

Arbitration set down for hearing. Postponed at arbitration. Respondent ordered to pay the costs of the day - S A L G B C (29/06/2015)

**Less:** Proceeds of auction received from attorneys

Amounts written off in terms of Section 32(2)(b) of the MFMA (MPAC Meeting held on 08 December 2014)

Amounts transferred to receivables for recovery in terms of Section 32(2) of the MFMA (Refer Note 3)

**For the year ended 30 June 2016:**

Duplication of catering services for S A L G B C event on 25 August 2015

Administration fees for traffic fines while driving hired vehicles for office bearers - Grindrod Travel

Penalty for late renewal of municipal motor vehicle licence

Arbitration set down for hearing. Postponed at arbitration. Respondent ordered to pay the costs of the day - S A L G B C (28/04/2016)

**Closing balance**

2016	2015
R	R
9 847	44 167
	30 300
	300
	795
	3 000
	3 547
	3 000
	-722
	-73 745
	-795
4 600	
1 685	
63	
3 000	
<b>19 194</b>	<b>9 847</b>

**50. RELATED PARTIES**

Parties are considered to be related if:

- 1) One party has the ability to control the other party or
- 2) Exercise significant influence over the other party in making financial and operating decisions.

The following are awards above R2 000 made to close family members of anybody in the service of the state:

Type of service	Awarded to	Total amount	Relation
Catering	Nkiza Business cc	117 710	The owner of the business is the wife of Councillor W P Mzimela

**51. RECONCILIATION OF BUDGET SURPLUS WITH THE SURPLUS IN THE STATEMENT OF FINANCIAL PERFORMANCE**

Net surplus per the statement of financial performance

Adjusted for: Fair value adjustments

(Surplus)/ deficit on the sale of assets

Increases/ (decreases) in allowances

(Increases)/ decreases in revenue derived from tariffs

(Increases)/ decreases in other revenue

(Increases)/ decreases in interest earned on external investments

(Increases)/ decreases in government grants and subsidies received

Increases/ (decreases) in employee related cost

Increases/ (decreases) in general expenses

Increases/ (decreases) in contracted services

Increases/ (decreases) in other expenditure

Surplus/ (deficit) for the year

(Refer to Statement of Comparison of Budget and Actual Amounts)

128 549 279	33 673 551
-10 309 933	-5 102 198
-911 450	-30 000
81 472 032	62 927 542
-115 158 459	-97 253 517
-162 552 508	-56 632 013
-6 466 900	-4 145 570
-135 560 171	-120 423 311
96 352 394	79 316 888
65 743 632	54 553 230
28 210 831	24 603 209
65 635 953	57 504 861
<b>35 004 700</b>	<b>28 992 670</b>

**UMLALAZI MUNICIPALITY**  
Annual Financial Statements for the year ended 30 June 2016

	2016 R	2015 R
<b>52. GRANTS AND SUBSIDIES PAID</b>		
Child and Family Welfare Organisation	6705 130 000	125 000
Society for the Prevention of Cruelty to Animals (S P C A)	6685 125 000	120 000
uMlalazi Tourism Association	6755 195 000	190 000
Zululand Historical Museum	6380 323 360	292 600
Vukani Zulu Cultural Museum	6707 207 000	
Free refuse	9911 1 720 168	1 542 424
Free electricity	9918 1 164 968	1 128 097
	<b>3 865 495</b>	<b>3 398 121</b>
<b>53. ELECTRICITY LOSSES</b>		
Purchase of electricity (kilowatt hours)	49 874 613	51 354 720
Sale of electricity (kilowatt hours)	44 785 456	45 660 713
	<b>5 089 157</b>	<b>5 694 007</b>
Kilowatt hour losses		
Percentage losses	10.20%	11.09%
Rand value of electricity losses		<b>8 541 010.50</b>
Rand value of electricity losses	<b>6 921 253.52</b>	
Electricity losses are caused by the following:		
1) Street lights consumptions that are not metered		
2) Tampering with electricity installations		
3) Other technical losses		

**54. CONTINGENT LIABILITY**

For the reporting period ending 30 June 2016, there are no possible contingent liabilities reported by the attorneys representing the municipality in certain cases.

**55. DEVIATION FROM SUPPLY CHAIN MANAGEMENT**

The following deviations and ratifications of minor breaches of procurement processes are reported to Council in terms of Section 36(2) of the Supply Chain Management Policy:

**Closed quotations/ tenders: (July 2015 to June 2016)**

Month	R0 - R20 000	R20 001 - R50 000	R50 001 - R100 000	R100 001 - R200 000	ABOVE R200 001	Total
July	125 252.19	151 301.49	182 209.31	1 330 086.70	1 374 220.53	<b>3 163 070.22</b>
August	83 234.39	143 562.68	178 489.00		499 267.96	<b>904 554.03</b>
September	69 344.27	158 891.25	150 138.00	169 062.00		<b>547 435.52</b>
October	133 262.70	45 533.03			277 020.00	<b>455 815.73</b>
November	35 043.30		50 092.79		556 000.00	<b>641 136.09</b>
December	36 383.82	27 866.40	86 516.00			<b>150 766.22</b>
January	101 463.51				773 600.00	<b>875 063.51</b>
February	39 721.30	126 330.10		959 511.19	860 857.38	<b>1 986 419.97</b>
March	71 391.56	122 544.00	233 468.00			<b>427 403.56</b>
April	47 918.82	97 107.30	51 300.00			<b>196 326.12</b>
May	97 111.20	37 734.00	75 000.00	185 238.58	237 600.00	<b>632 683.78</b>
June	74 821.59	203 670.12	193 585.94	566 502.21	278 056.71	<b>1 316 636.57</b>
<b>Total</b>	<b>914 948.65</b>	<b>1 114 540.37</b>	<b>1 200 799.04</b>	<b>3 210 400.68</b>	<b>4 856 622.58</b>	<b>11 297 311.32</b>

The above-mentioned deviations from the Supply Chain Management processes has been condoned in terms of the approved policy.

**UMLALAZI MUNICIPALITY**  
**Annual Financial Statements for the year ended 30 June 2016**

	<u>2016</u>	<u>2015</u>
	R	R
<b>56. FINANCIAL RISK MANAGEMENT</b>		
Risk and exposure are disclosed as follows:		
<b>56.1 Credit risk exposure</b>		
Cash and cash equivalents (Refer to notes below)	112 438 562	79 034 476
Maximum credit exposure	<u>112 438 562</u>	<u>79 034 476</u>
Note 1: The risk relating to short term deposits is minimised due to the nature of the municipal finance structure.		
Note 2: The risk relating to cash and cash equivalents is minimised as the municipality only deposits cash with major banks with high quality credit standing.		
<b>56.2 Liquidity risk</b>		
Consumer deposits	1 763 664	1 385 775
Payables from exchange transactions	47 899 242	22 751 156
VAT payable	776 936	1 584 956
Unspent conditional grants and receipts	20 098 974	14 950 892
Loans payable	342 816	342 816
Employee benefits	4 551 575	4 078 493
Provisions	5 063 439	4 888 244
	<u>80 496 647</u>	<u>49 982 331</u>
Current assets	152 198 642	106 145 863
Current liabilities	80 496 647	49 982 331
Current assets as a percentage of current liabilities	189%	212%
Current assets to current liabilities ratio	1.9:1	2.2:1
The generally accepted norm for this ratio is 1.5:1. The higher the ratio, the more liquid the municipality, and the better chances of meeting short term debt with short term liquid resources.		
<b>56.3 Interest risk</b>		
Management has assessed the impact of interest rate risk on the operations of the municipality and considers the risk to be negligible.		
<b>56.4 Market risk</b>		
Owing to legislative restrictions, the municipality has no exposure to market risk.		



**UMLALAZI MUNICIPALITY**  
**Annual Financial Statements for the year ended 30 June 2016**

	<u>2016</u>	<u>2015</u>
	R	R
<b>57. RESTATEMENT OF COMPARITIVE FIGURES</b>		
<b>57.1 Statement of financial position</b>		
<b>ASSETS</b>		
<b>Non-current assets</b>		
Balance at 30 June 2015		667 983 071
Property, plant and equipment	(Note 7)	
Transfer to heritage assets		-1 411
Prior year error correction on assets - fair value adjustments		120 565
Prior year error correction on assets		-4 025 273
Prior year error correction on depreciation		14 554 967
Heritage assets	(Note 12)	
Transfer from furniture and equipment		1 411
Balance at 30 June 2015 - restated		<u>678 633 330</u>
<b>NET ASSETS</b>		
Balance at 30 June 2015		703 400 000
Accumulated surplus	(Note 22)	
Prior year error correction on assets - fair value adjustments		120 565
Prior year error correction on assets		-4 025 273
Prior year error correction on depreciation		14 554 967
Balance at 30 June 2015 - restated		<u>714 050 260</u>

APPENDIX A

uMLALAZI MUNICIPALITY

SCHEDULE OF EXTERNAL LOANS FOR THE YEAR ENDED 30 JUNE 2016

EXTERNAL LOANS	Loan	Interest rate	Maturity date	Balance at 30/06/2015 R	Received during the period R	Redeemed written off during the period R	Balance 30/06/2016 R	Carrying Value of Property Plant & Equipment R	Other Costs in Accordance with the MFMA R
Annuity Loans									
Development Bank of South Africa	Industrial Area	12.42%		4 799 419	-	342 816	4 456 603		
TOTAL EXTERNAL LOANS				4 799 419	-	342 816	4 456 603		

APPENDIX B

uMLALAZI MUNICIPALITY

ANALYSIS OF PROPERTY PLANT AND EQUIPMENT FOR THE YEAR ENDED 30 JUNE 2016

	Opening Balance (Restated) 30/06/2015	Additions Infrastructure	AUC released	Additions	Revaluation	Donated assets	Disposals	Cost / Reval Closing Balance	Opening Balance (Restated) 30/06/2015	Additions	Accumulated Disposals	Depreciation Closing Balance	Opening Balance	Accumulated Impairment	Disposals	Closing Balance	Carrying Value	Carrying Value (Restated) 30/06/2015
	R	R	2015/2016	2015/2016	2015/2016	2015/2016	2015/2016	2015/2016	R	R	R	R	30/06/2015	2015/2016	2015/2016	2015/2016	2015/2016	R
Properties	130 846 827			750 000				131 596 827					-				131 596 827	130 846 827
Community assets	186 432 497		1 677 443	3 496 434		93 424 933	-38 048	284 993 259	-62 022 056	-9 212 524	22 620	-71 211 960	-3 707 744	-1 797 379	3 822	-5 501 301	208 279 998	120 702 698
Vehicles	23 882 009			3 594 641			-1 508 046	25 968 604	-10 912 626	-2 512 608	979 801	-12 445 433	-358 212	-151 556	358 212	-151 556	13 371 615	12 611 172
Roads	414 602 933	-	18 305 121	2 539 285		-	-8 731 809	426 715 530	-146 346 302	-14 915 115	5 222 370	-156 039 047	-935 137	-1 123 441	68 454	-1 990 125	268 686 357	267 321 490
Bridges: Vehicles	6 257 530		16 046					6 273 576	-1 037 231	-263 161		-1 300 392		-43 615		-43 615	4 929 570	5 220 299
Bridges: Pedestrian	4 239			152 004				156 243	-477	-3 024		-3 501					152 741	3 760
Roads: Asphalt surface	69 814 188		4 755 476				-1 849 038	72 720 626	-11 177 259	-3 327 932	432 604	-14 072 587	-384 599	-620 018	68 454	-936 164	57 711 875	58 252 330
Roads: Asphalt basis/structure	118 025 137		11 365 556				-3 698 077	125 692 616	-68 684 633	-3 258 541	2 984 428	-68 958 746	-40 406	-231 083			56 462 380	49 300 097
Roads: Gravel surface	10 844 067		87 679					10 931 746	-893 052	-3 350 215		-4 243 267					6 688 479	9 951 013
Roads: Earthworks	87 808 236		1 632 082					86 255 624	-40 369 796	-2 838 872	1 805 338	-41 403 330					44 852 294	47 438 440
Roads: Kerb and channels	33 910 619		315 079	771 497			-3 184 694	34 997 194	-19 439 500	-1 075 647		-20 515 147	-1 708	-176 126		-177 834	14 304 212	14 469 409
Roads: Pedestrian footpaths	3 936 430			433 273				4 369 703	-1 159 812	-146 344		-1 306 157	-508 423	-48 652		-557 075	2 506 471	2 268 194
Roads: Street lighting	2 595 787			988 088				3 583 875	-1 080 908	-88 182		-1 169 090		-458		-458	2 414 328	1 514 879
Causeways	10 340 704							10 340 704	-1 912 316	-496 731		-2 409 048					7 931 656	8 428 387
Roads: Traffic lights	411 911			57 109				469 020	-118 911	-18 920		-137 832					331 188	293 000
Roads: Traffic signs	13 810							13 810	-111 110	-901		-12 011					1 799	2 700
Road calming measures	781 088							781 088	-385 438	-23 797		-409 234					371 653	395 649
Land - Road reserve	69 502 363							69 502 363	-			-					69 502 363	69 502 363
Speed humps	356 826		133 203	137 314				627 343	-75 857	-22 847		-98 704		-3 490		-3 490	525 149	280 970
Storm water	88 291 676	-	140 273	899 235				89 331 184	-46 085 487	-2 763 631		-48 849 119	-824 430	-645 147	-	-1 469 577	39 012 489	41 381 759
Kerb inlets	8 418 307		38 661					8 456 968	-5 360 636	-221 714		-5 582 350	-8 112	-3 919		-12 030	2 862 588	3 049 560
Masonry structures	3 905 404		52 239	199 109				3 256 752	-1 632 622	-117 401		-1 750 023	-2 274	-12 390		-14 664	1 492 065	1 370 598
Pipes	31 254 685			584 995				31 839 680	-19 172 894	-683 550		-19 856 443	-128			-128	11 983 109	12 081 664
RC Structures	9 469 870		49 372					9 519 243	-5 463 097	-391 472		-5 854 569	-7 996	-84 839		-92 835	3 571 839	3 998 778
Channels	36 143 410			115 131				36 258 541	-14 456 239	-1 349 494		-15 805 733	-805 921	-543 999		-1 349 921	19 102 888	20 881 250
Electrical	66 116 104	-	-	1 454 943		-	-	67 571 048	-18 699 422	-2 606 720	-	-21 306 142		-1 363 411		-1 363 411	44 901 495	47 416 682
Transformers	7 511 081			77 080				7 588 161	-2 129 780	-429 400		-2 559 181		-82 180		-82 180	4 946 801	5 381 301
Prepaid electricity meters	254 632							254 632	-111 898	-19 159		-131 057					123 576	142 735
Cables	15 609 643							15 609 643	-6 723 091	-523 734		-7 246 825					8 362 816	8 886 552
Substation switchgear	24 041 356			1 042 851				25 084 207	-5 442 687	-912 421		-6 355 107		-920 483		-920 483	17 808 616	18 598 669
Perimeter protection	218 591							218 591	-131 122	-14 568		-145 690					72 901	87 469
Substation	3 056 851							3 056 851	-713 055	-132 537		-845 592		-117 814		-117 814	2 093 445	2 343 796
Ring main unit	1 327 988			108 518				1 436 506	-288 844	-52 717		-341 561		-69 245		-69 245	1 025 700	1 039 144
Mini sub stations	14 095 962			226 494				14 322 456	-3 158 946	-522 184		-3 681 130		-173 689		-173 689	10 467 637	10 937 016
Furniture and equipment	5 774 066			1 344 428		281 990	-98 276	7 302 210	-3 149 923	-798 601	77 879	-3 870 645	-2 946	-179 465	2 601	-179 811	3 251 755	2 621 199
Computer equipment	4 207 066			2 929 318			-141 370	6 995 015	-1 988 730	-784 647	112 501	-2 660 876	-3 218	-42 505	3 214	-42 509	4 291 630	2 215 120
Machinery and equipment	7 021 006			1 830 842		179 640	-238 864	8 792 624	-3 857 741	-843 889	176 691	-4 524 939	-97 668	-32 990	48 893	-81 765	4 185 920	3 065 598
Assets under construction	32 292 397	49 482 779	-20 122 837					61 652 339									61 652 339	32 292 397
Property, plant and equipment (Note 7)	959 466 582	49 482 779	-0	18 839 125	-	93 886 563	-10 756 412	1 139 918 639	-293 062 288	-34 437 735	6 591 862	-320 908 160	-5 929 355	-5 335 895	485 195	-10 780 055	779 230 420	660 474 937
Heritage assets (Note 12)	1 411			10 309 933				10 311 344									10 311 344	1 411
Investment properties (Note 11)	16 257 000							16 257 000					-				16 257 000	16 257 000
Intangible assets (Note 10)	1 482 237			355 340				1 837 577	-1 001 620	-216 703		-1 218 323					619 254	480 617
	977 207 230	49 482 779	-0	19 194 465	-	93 886 563	-10 756 412	1 139 324 560	-294 063 908	-34 654 437	6 591 862	-322 126 483	-5 929 355	-5 335 895	485 195	-10 780 055	806 418 018	677 213 965

**APPENDIX C**  
**uMLALAZI MUNICIPALITY**  
**SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE**  
**FOR THE YEAR ENDED 30 JUNE 2016**

		<b>2016</b>	<b>2016</b>	<b>2016</b>
		<b>Actual</b>	<b>Actual</b>	<b>(Surplus)/</b>
		<b>Income</b>	<b>Expenditure</b>	<b>Deficit</b>
		<b>R</b>	<b>R</b>	<b>R</b>
Executive and Council	13	-310 282 664	110 071 988	-200 210 676
Budget and Treasury Office	14	-4 051 086	15 267 940	11 216 854
Corporate Services	15	-430 257	11 600 810	11 170 553
Planning and Development	16	-9 492 636	16 780 674	7 288 038
Health	17	-5 017 129	8 726 722	3 709 594
Community and Social Services	18	-3 659 925	4 244 857	584 932
Housing	19	-539 639	2 583 382	2 043 743
Public safety	20	-35 098 623	52 827 360	17 728 737
Sport and Recreation	21	-3 794 302	12 230 403	8 436 101
Waste management	22	-15 519 682	17 329 003	1 809 321
Road transport	23	-13 164 920	20 737 996	7 573 076
Electricity	24	-68 608 183	68 102 086	-506 096
Air transport	25	-	5 893	5 893
Workshop	26	-	600 651	600 651
<b>Total</b>		<b>-469 659 045</b>	<b>341 109 767</b>	<b>-128 549 279</b>

<b>2015</b>	<b>2015</b>	<b>2015</b>
<b>Actual</b>	<b>Actual</b>	<b>(Surplus)/</b>
<b>Income</b>	<b>Expenditure</b>	<b>Deficit</b>
<b>R</b>	<b>R</b>	<b>R</b>
-177 760 910	90 160 643	-87 600 267
-2 612 038	12 500 789	9 888 752
-934 078	8 677 852	7 743 774
-3 298 076	4 726 568	1 428 492
-2 732 000	4 805 025	2 073 026
-3 330 812	3 340 637	9 825
-1 600 791	1 197 837	-402 954
-27 925 791	44 669 608	16 743 817
-2 781 335	10 525 642	7 744 307
-14 209 892	15 656 468	1 446 576
-12 301 518	17 944 570	5 643 053
-67 701 198	68 814 464	1 113 266
-	9 802	9 802
-	484 985	484 985
<b>-317 188 439</b>	<b>283 514 888</b>	<b>-33 673 551</b>

APPENDIX D (1)

uMLALAZI MUNICIPALITY

ACTUAL COMPARED WITH BUDGETED REVENUE AND EXPENDITURE

FOR THE YEAR ENDED 30 JUNE 2016

		Actual 2016	Budget 2016	Variance 2016	Variance 2016	Explanation of significant variances greater than 10% versus budget
		R	R	R	%	
<b>REVENUE</b>						
<b>Revenue from Non-exchange Transactions</b>		<b>-376 746 435</b>	<b>-298 516 480</b>	<b>78 229 955</b>	<b>26.21</b>	
<b>Taxation revenue</b>		<b>-48 690 257</b>	<b>-49 541 080</b>	<b>850 823</b>		
Property rates	1	-46 375 576	-47 453 980	-1 078 404	-2.27	
Property rates- penalties imposed	2	-2 314 681	-2 087 100	227 581	10.90	Increased debtors in arrears caused the higher penalties on accounts.
<b>Transfer revenue</b>		<b>-295 120 918</b>	<b>-223 506 950</b>	<b>71 613 968</b>		
Government grants and subsidies - operational	9	-135 560 171	-156 563 120	-21 002 949	-13.42	Underspending on Rural Electrification grant, Project Management grant (MIG - administration fees) and Disaster Management grant.
Transfers recognised - capital	11	-65 674 184	-56 441 830	9 232 354	16.36	Improved spending on Municipal Infrastructure Grant.
Public contributions, donated and contributed PPE	40	-93 886 563	-10 502 000	83 384 563	793.99	Ninety one (91) rural facilities transferred to municipality as donated assets, which were not budgeted for.
<b>Other</b>		<b>-32 935 261</b>	<b>-25 468 450</b>	<b>7 466 811</b>		
Fines	7	-32 197 564	-25 468 450	6 729 114	26.42	More traffic fines issued than anticipated.
Actuarial gains	41	-737 696	-	737 696		Post-employment health care benefits decreased with valuation report.
<b>Revenue from Exchange Transactions</b>		<b>-82 602 677</b>	<b>-81 491 610</b>	<b>1 111 067</b>	<b>1.36</b>	
Service charges	3	-67 626 976	-67 745 030	-118 054	-0.17	
Rental of facilities and equipment	4	-1 155 907	-1 180 430	-24 523	-2.08	
Interest earned- external investments	5	-6 466 900	-5 693 850	773 050	13.58	Increased interest due to efficient cash flow management during the year.
Interest earned- outstanding debtors	39	-457 035	-373 900	83 135	22.23	Increased debtors in arrears caused the higher interest on accounts.
Licences and permits	8	-3 419 316	-3 354 220	65 096	1.94	
Other income	10	-2 565 093	-2 197 830	367 263	16.71	The additional income was caused due to old insurance claims transferred to the sundry income line item.
(Gain)/ loss on sale of assets	12	-911 450	-946 350	-34 900	-3.69	
<b>Total revenue</b>		<b>-459 349 112</b>	<b>-380 008 090</b>	<b>79 341 022</b>	<b>20.88</b>	
<b>EXPENDITURE</b>						
Executive and Council	13	110 071 988	101 208 580	8 863 408	8.76	Additional impairment losses calculated on the Council's assets and allowance for doubtful debts caused the over expenditure.
Budget and Treasury Office	14	15 267 940	15 851 280	-583 340	-3.68	
Corporate Services	15	11 600 810	11 632 550	-31 740	-0.27	
Planning and Development	16	16 780 674	18 518 450	-1 737 776	-9.38	
Health	17	8 726 722	8 869 100	-142 378	-1.61	
Community and Social Services	18	4 244 857	4 836 450	-591 593	-12.23	Budget not fully spend on library salary items, telephone and cables, library grant and environmental studies for cemeteries.
Housing	19	2 583 382	3 263 100	-679 718	-20.83	Grants not fully spend for Sunnysdale and Gingindlovu housing.
Public safety	20	52 827 360	54 164 560	-1 337 200	-2.47	
Sport and Recreation	21	12 230 403	12 320 080	-89 677	-0.73	
Waste management	22	17 329 003	17 334 920	-5 917	-0.03	
Road transport	23	20 737 996	20 933 520	-195 524	-0.93	
Electricity	24	68 102 086	77 276 660	-9 174 574	-11.87	Underspending on Rural Electrification grant.
Air transport	25	5 893	13 080	-7 187	-54.94	No spending on the maintenance of grounds budget for the airfield.
Workshop	26	600 651	601 060	-409	-0.07	
<b>Total expenditure</b>		<b>341 109 767</b>	<b>346 823 390</b>	<b>-5 713 623</b>	<b>-1.65</b>	
(Profit)/ loss on fair value adjustment	38	-10 309 933	-1 820 000	8 489 933	466.48	Fair value adjustments were done on office bearer's regalia and buildings at the Zululand Historical Museum for heritage assets.
<b>(SURPLUS)/ DEFICIT FOR THE YEAR</b>		<b>-128 549 279</b>	<b>-35 004 700</b>	<b>82 117 332</b>		

**APPENDIX D (2)**

**uMLALAZI MUNICIPALITY**

**ACTUAL VERSUS BUDGET - ACQUISITION OF PROPERTY PLANT AND EQUIPMENT**

**FOR THE YEAR ENDED 30 JUNE 2016**

	<b>2016 Actual</b>	<b>2016 Under Construction</b>	<b>2016 Total Additions</b>	<b>2016 Budget</b>	<b>2016 Variance</b>	<b>2016 Variance</b>	<b>Explanation of significant variances greater than 10% versus budget</b>
	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>%</b>	
Executive and Council	431 807		431 807	900 000	468 193	52.02%	All the planned furniture and park home not purchased for the Mayor's office.
Budget and Treasury Office	2 852 232		2 852 232	3 265 450	413 218	12.65%	All the planned furniture and IT equipment not purchased for the Finance Department.
Corporate Services	5 464 369	3 586 083	9 050 452	11 711 220	2 660 768	22.72%	Full budget not utilised for machinery, equipment. Office buildings budget underspent.
Planning and Development	813 226		813 226	1 503 850	690 624	45.92%	Informal trading shelters not erected in Gingindlovu and King Dinuzulu suburb.
Health	232 419		232 419	412 000	179 581	43.59%	Capital items not purchased for Biyela Community Support Centre. Procurement to take place in 2016/2017.
Community and Social Services	315 960	1 170 000	1 485 960	1 617 130	131 170	8.11%	
Public safety	448 175	2 693 302	3 141 477	860 000	-2 281 477	-265.29%	Grant funding was received to refurbish the Gingindlovu Fire Station. The expenditure on this project took place on the operating budget. At year the expenditure was transferred to the capital portion of the budget, where no budget was provided with the adjustments budget.
Sport and Recreation	713 496	21 200 281	21 913 777	23 272 120	1 358 343	5.84%	
Waste management	1 025 390		1 025 390	1 086 000	60 610	5.58%	
Road transport	15 257 467	8 808 970	24 066 437	30 983 160	6 916 723	22.32%	Full budget not utilised for road projects.
Electricity	3 488 873		3 488 873	4 133 860	644 987	15.60%	Savings on procurement of electricity equipment. Full budget not required for street lights project on R66 by-pass.
	31 043 414	37 458 636	68 502 050	79 744 790	11 242 740	14.10%	

**APPENDIX E**

**uMLALAZI MUNICIPALITY**

**DISCLOSURE OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA (ACT NO. 56 OF 2003)**

**FOR THE YEAR ENDED 30 JUNE 2016**

**Grants and Subsidies Received**

Name of organ of state and description of grants	Number of grant	Quarterly receipts				Quarterly expenditure				Grants and Subsidies delayed/withheld	Reason for delay withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for non-compliance
		July to Sept 2015	Oct to Dec 2015	Jan to Mar 2016	April to June 2016	July to Sept 2015	Oct to Dec 2015	Jan to Mar 2016	April to June 2016				
		1	2	3	4	1	2	3	4				
<b>DEPARTMENT OF CO-OPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS</b>													
Disaster management grant				9 100 000		1 500 000		2 047 434	3 360 406	NO	N/A	YES	N/A
Support to community service centres grant				500 000					37 129	NO	N/A	YES	N/A
Small town rehabilitation grant				3 000 000					152 410	NO	N/A	YES	N/A
		-	-	<b>12 600 000</b>	-	<b>1 500 000</b>	-	<b>2 047 434</b>	<b>3 549 945</b>				
<b>NATIONAL TREASURY</b>													
Municipal Systems Improvement Grant	15	930 000				100 992	305 438	228 627	294 554	NO	N/A	YES	N/A
Municipal Infrastructure Grant	35	11 000 000	13 090 000	15 000 000		7 485 217	14 146 508	4 321 877	14 749 101	NO	N/A	YES	N/A
Financial Management Grant	44	1 600 000				226 696	186 687	724 581	462 035	NO	N/A	YES	N/A
Expanded Public Works Programme Integrated Grant	55	1 215 000	911 000	911 000		569 424	755 233	564 929	743 573	NO	N/A	YES	N/A
		<b>14 745 000</b>	<b>14 001 000</b>	<b>15 911 000</b>	-	<b>8 382 329</b>	<b>15 393 866</b>	<b>5 840 014</b>	<b>16 249 263</b>				
<b>DEPARTMENT OF HUMAM SETTLEMENTS</b>													
Sunnydale Low Cost housing grant	51									NO	N/A	YES	N/A
Rural Housing project grant										NO	N/A	YES	N/A
		-	-	-	-	-	-	-	-				
<b>DEPARTMENT OF ARTS AND CULTURAL</b>													
Community library services grant	50		191 000	170 000		89 011	94 822	79 418	87 272	NO	N/A	YES	N/A
		-	<b>191 000</b>	<b>170 000</b>	-	<b>89 011</b>	<b>94 822</b>	<b>79 418</b>	<b>87 272</b>				
<b>DEPARTMENT OF SPORT AND RECREATION</b>													
Maintenance of sport facilities grant						35 358	27 130			NO	N/A	YES	N/A
Sports facilities grant						380 755	510 277			NO	N/A	YES	N/A
		-	-	-	-	<b>416 113</b>	<b>537 407</b>	-	-				
<b>DEPARTMENT OF MINERALS AND ENERGY</b>													
Integrated national electrification programme grant		6 000 000	2 000 000			51 053	220 485	148 112	3 659 791	NO	N/A	YES	N/A
		<b>6 000 000</b>	<b>2 000 000</b>	-	-	<b>51 053</b>	<b>220 485</b>	<b>148 112</b>	<b>3 659 791</b>				
<b>TOTAL OF ALL GRANTS</b>		<b>20 745 000</b>	<b>16 192 000</b>	<b>28 681 000</b>	-	<b>10 438 506</b>	<b>16 246 580</b>	<b>8 114 978</b>	<b>23 546 271</b>				